AMERICAN BANKERS ASSOCIATION JOURNAL

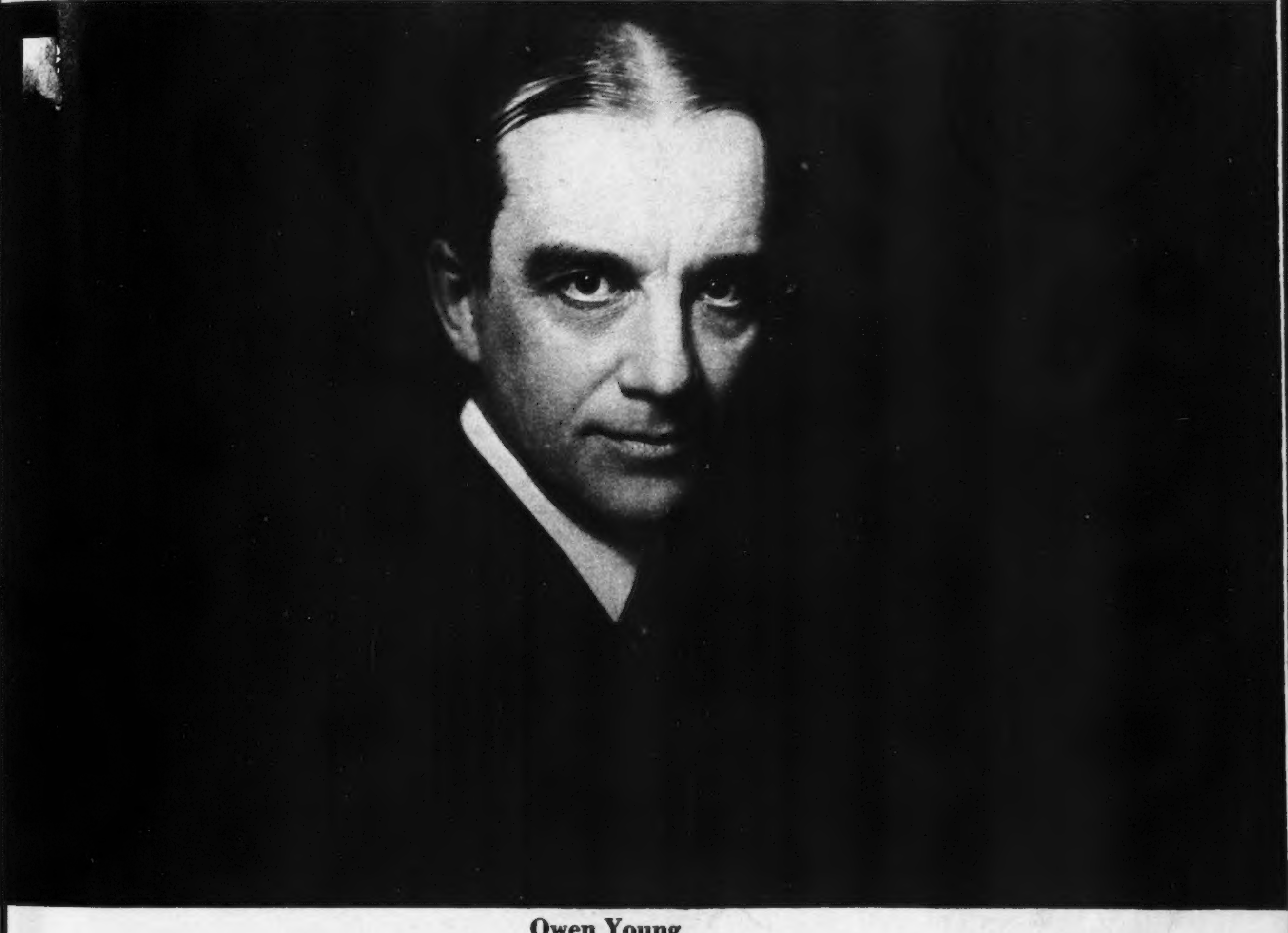
Index to Volume XXV

JULY 1932—JUNE 1933

F. N. SHEPHERD . . Editor and Publisher
WM. R. KUHNS . . . . . Managing Editor

OFFICE OF PUBLICATION
22 East 40th Street, New York

AMERICAN BANKERS Association JOURNAL



Owen Young

JULY 1932

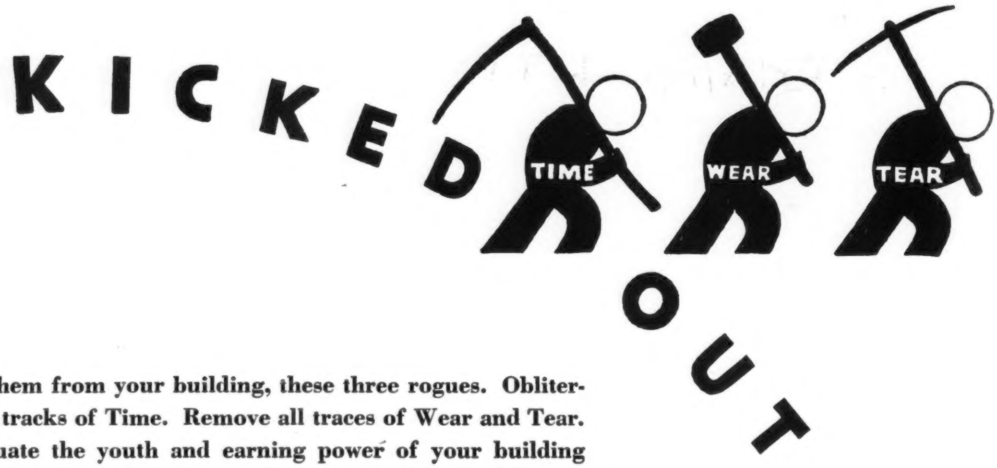
The Unit Bank Accepts the Challenge

Master Banking—How 59 Banks Advertise

If Europe Wanted to Pay—Unemployment Relief

PUBLISHED IN TWO SECTIONS · SECTION ONE

Obsolescence Insurance protects your building against Time and Wear and Tear



SEND them from your building, these three rogues. Obliterate the tracks of Time. Remove all traces of Wear and Tear. Perpetuate the youth and earning power of your building with *Obsolescence Insurance!*

***Obsolescence Insurance* is a fund which you, yourself, create from the regular income of your building. It is used to keep up those parts of a building which deteriorate quickly — its furnishings and fixtures and operating units. Each year you have your building carefully inspected and appraised. From this thorough going-over, you can then determine how and where your *Obsolescence Insurance* money can best be spent.**

The elevators should receive first consideration when insuring your building against obsolescence, for they are always in use and forever in full view. Here the help of Otis Elevator Company will prove beneficial. For Otis has two services which together protect any elevator against obsolescence. First, the Otis Modernization Plan, which calls for the overhauling of elevators according to new and up-to-date standards. Second, the Otis Maintenance Service, which provides for regular and competent elevator inspection and repair at the hands of veteran Otis men.

You are invited to avail yourself of the Otis *Modernization Survey*. This accommodation is free and includes a complete report explaining just what is needed to give you an up-to-date elevator system together with economical maintenance. Won't you just call your Otis office? *Otis Elevator Company . . . offices in all principal cities.*

AMERICAN BANKERS Association JOURNAL

FEATURES FOR JULY, 1932

Bankers Are Urged to Read Carefully on Page 44 of This Issue the Provisions of the Revenue Act of 1932 Pertaining to the Two-Cent Tax on Checks.

DEPARTMENTS

Vol. XXV No. 1

PUBLISHED MONTHLY BY THE AMERICAN BANKERS ASSOCIATION AT 22 E. 40th ST., NEW YORK

Washington Office: 708 Colorado Building

Fred N. Shepherd, *Editor and Publisher*

William R. Kuhns, *Managing Editor*

L. E. Lascelle, *Business Manager*
Alden B. Baxter, *Advertising Manager*

Chicago: Robert W. Kneebone, 230 N. Michigan Ave.; Los Angeles and San Francisco: R. J. Birch & Co.

Entered as second-class matter May 5, 1909, at the Post Office at New York, N. Y., under the Act of March 3, 1879; additional entry at Greenwich, Conn.

Subscription $3.00 per annum; Canada $3.36; Foreign $3.72; Single Copies 25 cents

Behind the Bond News

MR. COOLIDGE once observed that the people talk worse than they vote. The remark would apply with just as much aptness to Congress. On numerous occasions since last December Congress discussed schemes of a variety highly injurious to financial stability, and for a disconcertingly long period some of them seemed to have a good chance of becoming law; but in the end they were laid aside and Senators and Representatives alike settled down to the business of passing enough additional taxes to bring the budget into ostensible balance. By so doing Congress injected new hope and new strength into the bond market, and from levels that were the lowest of the depression, prices of many issues scored gains.

Enactment of the revenue bill furnished the capstone for a number of recent events having considerable importance from the standpoint of the bond market. Not all were in themselves favorable, but the net effect of the series was beneficial to prices. Included among these developments were: the continuance, though at a reduced rate, of the Federal Reserve's purchases of Government securities; the sounding of the doom, at least until the next session of Congress, of the Glass bill which among other things would have restricted bank investments in bonds; the avoidance of default on a $20,000,000 maturity of St. Louis Southwestern bonds; the appointment in the several Federal Reserve districts of committees of bankers and industrialists to devise means (in the words of George L. Harrison, Governor of the Federal Reserve Bank of New York) of making credit "useful affirmatively in developing business;" and the formation of a corporation, known as the American Securities Investing Corporation, under the leadership of a group of New York banks, for the purpose of buying bonds which others, either through fear or necessity, were virtually giving away.


GALLOWAY

THE RESERVE POLICY

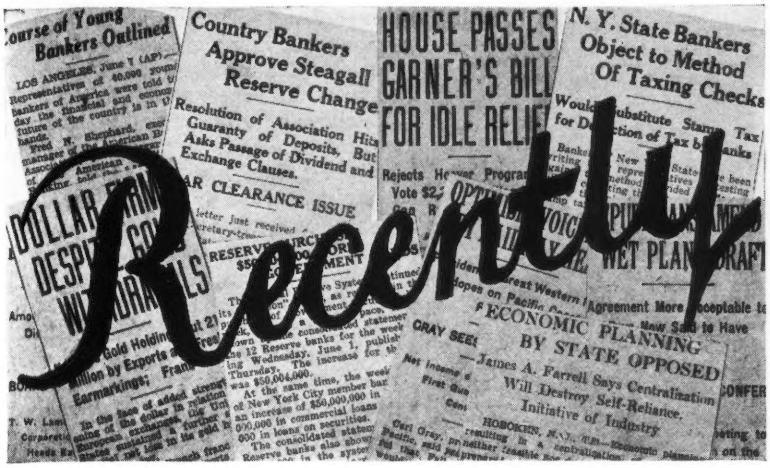
WITH exemplary courage the Federal Reserve, by purchasing securities in order that bank debt could be reduced and excess reserves piled up as the traditional base for a credit expansion, has paved the way for united action along the financial front to combat the forces of depression. The System's policy has been maligned in some quarters, but the authorities have held resolutely to their course. They already have important accomplishments to their credit. Even while many listed bonds were gravely weak, the ease which the System brought to the money market has made it possible for dealers to float numerous small issues. A number of municipal and state issues, together with a few prime corporate obligations, have found a receptive market, and the higher ranking dealers unhesitatingly state that they would have been powerless to sell any bonds at all without the assistance of the Federal Reserve's enlightened policy.

He who reads economic history with an understanding eye must inescapably be impressed with the circumstance that recovery from depression must come first in the security markets. Short term money must be induced to flow into long term uses, and the best way to get this flow started is to aggravate the glut of short money. One would suppose that the record was clear enough on this point for the central bankers to be working hand-in-hand toward a common goal, but in much of Europe central bankers follow their governments in devotion to "security." The Federal Reserve, however, has fully appreciated its obligation and function, and during the depression it has been carving out for itself one of the most distinguished records in central banking history by its courageous policies. What the System is now doing and will be doing for some time has an important bearing on the bond market.

In this country one naturally looks to the Federal Reserve for leadership, and it is pleasant to record that in this quality the officials have not been found wanting. They have not been content with influencing the money market; they have two recent accomplishments in other fields which may prove extremely helpful in throwing off the shackles of depression. First, they appointed imposing committees of bankers and industrialists in the various districts for the purpose of bringing borrower and lender together and expanding bank credit. Secondly, working through the committee in the New York district, they have persuaded the commercial and private bankers to form a corporation to buy bonds.

THE YOUNG COMMITTEE

DIRECTLY after it was appointed, the committee in the New York district, headed by Owen D. Young, negotiated one valuable deal in the long term field. It arranged for a group of New York banks to underwrite an issue of bonds of the Savings and Loan (CONTINUED ON PAGE 68)

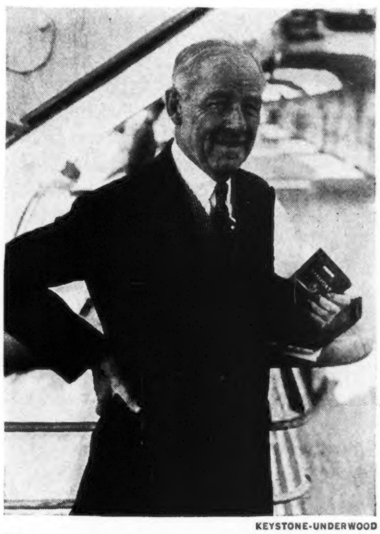


The Young Committee and Similar Groups

THE outstanding development of recent weeks in the field of reconstruction has been the effort to coordinate the forces of financial and business recovery through the establishment of committees in the various Federal Reserve districts representing a national coalition of banking and industry. The movement was initiated at a meeting in Washington of the Reserve governors, and the first step in setting up such a country-wide organization was taken in New York City on May 19, when Governor George L. Harrison announced the formation of a group which has been described as "the most powerful assembly of financial leaders since the Liberty Loan Committee."

Owen D. Young, chairman of the General Electric Company and author of the Young Plan for the settlement of German reparations, was named head of the organization; the rest of its membership was made up as follows:

Mortimer N. Buckner, chairman, New York Trust Company; Floyd L. Carlisle, chairman, Consolidated Gas Company; Walter S. Gifford, president, American Telephone and Telegraph Company; Charles E. Mitchell, chairman, National City Bank; William C. Potter, president, Guaranty Trust Company; Jackson E. Reynolds, president, First National Bank; Alfred P. Sloan, Jr., president, General Motors Corporation; Walter C. Teagle, president, Standard Oil Company of New Jersey; A. A. Tilney, chairman, Bankers Trust Company; Albert H. Wiggin, chairman of governing board, Chase National Bank; and Clarence M. Woolley, chairman, American Radiator and Standard Sanitary Corporation.



KEYSTONE-UNDERWOOD

Thomas W. Lamont of J. P. Morgan and Company is the president of the new American Securities Investing Corporation

While this committee announced no definite program, it was made clear that its general purpose would be that of implementing the open market operations of the Federal Reserve System. These operations, which began during the third week of February and increased in intensity in mid-April, were designed to encourage the freer use of the country's enormous banking reserves. While they were successful in a negative sense—that is, in preventing the further contraction of credit—they had not resulted in any genuine expansion in the use of member bank credit. It was believed that through the establishment of the "Young Committee" and corresponding groups in other Reserve districts, there might result a lowering of the barriers which were obstructing a free movement of credit from the banks to industry.

The varying and far-reaching con-

YOUR EMPLOYEES AND THE NEW JOURNAL

Lower banking costs are a definite banking need. Your employees will find in the JOURNAL each month the cream of the new ideas for increasing efficiency and economy. Let us tell you how all these money-saving suggestions are sure to be used by the members of your staff.

tacts of the industrial members of the committee, it was pointed out, would enable them to bring to the attention of the banking community many projects deserving of credit, while the influence of the banking members was expected to insure the extension of credit wherever it could safely be used.

One of the first moves made by the Young Committee was that of providing for the placing of funds in the hands of the savings and loan associations of New York State to enable them to finance the maturing mortgages of small home owners. This was done by arranging for a group of banks to underwrite an issue of bonds of the Savings and Loan Bank, which is a central bank for saving and loan associations throughout the state. Ordinarily, this institution sells its obligations to savings banks and other institutions, but its customary markets are closed to it at present. Another step undertaken by the Committee was that of encouraging the extension of the use of bankers' acceptances in domestic trade.

THE A. S. I. C.

SUPPLEMENTING the work of the Young Committee, and encouraged in its inception by the latter, is the American Securities Investing Corporation, launched, less than a fortnight later, under the aegis of J. P. Morgan & Co. This corporation has been loosely referred to as a "bond pool", but its sponsors have let it be understood that it is in no sense a relief agency or a "stop-gap" for the present emergency. While its initial investments naturally have been largely confined to the bond market, it is a private investment corporation formed for the general purpose of "acquiring sound securities in the investment market". With a capital of $100,000,000, and headed by Thomas W. Lamont, member of J. P. Morgan & Co., the institution represents one of the most powerful banking consortiums ever banded together. Its executive committee is drawn entirely from the membership of the Young Committee, and is made up as follows:

Albert H. Wiggin, chairman of the governing board of Chase National Bank; Charles E. Mitchell, chairman of National City Bank; William C. Potter, president of Guaranty Trust Company; Jackson E. Reynolds, president of First National Bank, and A. A. Tilney, chairman of the board of Bankers Trust Company.

Its board of directors includes the following:

Mortimer N. Buckner, chairman of the board of New York Trust Company,

George W. Davison, president of Central Hanover Bank and Trust Company; Walter E. Frew, chairman of the board of Corn Exchange Bank Trust Company; Harvey D. Gibson, president of Manufacturers Trust Company; F. Abbot Goodhue, president of the Bank of Manhattan Trust Company; H. P. Howell, president of Commercial National Bank and Trust Company; Percy H. Johnston, president of Chemical Bank and Trust Company.

Thomas W. Lamont, of J. P. Morgan & Co.; Charles E. Mitchell, chairman of National City Bank; Lewis E. Pierson, chairman of the board of Irving Trust Company; William C. Potter, president of Guaranty Trust Company; Jackson E. Reynolds, president of First National Bank; Albert A. Tilney, chairman of the board of Bankers Trust Company; John C. Traphagen, president of Bank of New York and Trust Company; Felix M. Warburg, of Kuhn, Loeb & Co.; George Whitney, of J. P. Morgan & Co., and Albert H. Wiggin, chairman of the governing board of Chase National Bank.

ALSO IN CHICAGO

BARELY had the Young Committee taken form when the movement to establish similar groups in other sections of the country got under way. On May 25, at Chicago, a committee of eleven bankers and business men was named by James B. McDougal, governor of the Reserve bank of the Seventh District, "to investigate ways in which additional bank credit might safely be used." The committee is headed by Sewell L. Avery, president of Montgomery Ward & Co. and of the United States Gypsum Company. Its members include, besides Mr. Avery, the following business and banking leaders:

DISTINGUISHED GROUP

GEORGE A. RANNEY, vice president and treasurer of the International Harvester Company; General Robert E. Wood, president of Sears, Roebuck Company; John Stuart, president of the Quaker Oats Company; D. F. Kelly, president of The Fair; Fred W. Sargent, president of the Chicago Northwestern Railway; George M. Reynolds, chairman of the Continental Illinois Bank and Trust Company; Melvin A. Traylor, president of the First National Bank; Albert W. Harris, chairman of the Harris Trust and Savings Bank; Philip R. Clarke, president of the Central Republic Bank and Trust Company; Solomon A. Smith, president of the Northern Trust Co.

AMERICAN BANKERS
Association
JOURNAL

JULY 1932

The Unit Bank Accepts the Challenge

By FELIX M. McWHIRTER

MUCH American history has been written around stormy conflicts concerning the degree to which it is prudent and consistent with national traditions to permit the concentration of financial power in the hands of a few in the United States. More such history now appears to be in the making. Once again, different men, adhering to different schools of banking and political principles, are reaching sharply conflicting conclusions on this subject.

Branch banking has been freely discussed in recent years. Further extension of branch banking under national and state banking laws has been proposed in varying degrees. Most of the discussion has been admirably temperate, considering the stakes involved. It has been so because those urging one view have respected the right of others not only to hold a different view but also to enjoy freedom of action in governing their affairs accordingly.

Now all that is changed. It hitherto has been proposed that branch banking should not be prevented from growing into the American banking structure by a process of easy evolution, if it could prove its necessity and worth under fair competitive conditions and without the artificial aid of political preference. While we were slow to extend branch banking to the extent authorized by earlier laws, few people objected to its natural growth under healthy conditions.

BACHRACH

MR. McWHIRTER

The issue, as Mr. McWhirter sees it, is not simply branch banking. It is a question of far more fundamental importance—whether the United States should continue under the dual system, or change to a unified system under Federal supervision.

The JOURNAL publishes this article solely as an expression of the views of the President of the State Bank Division.

In keeping with the JOURNAL'S purpose as an unbiased forum of banking opinion, future issues will include articles by bankers who do not share Mr. McWhirter's interpretation of Section 19 of the Glass Bill.

Mr. McWhirter is President of the Peoples State Bank of Indianapolis and President of the State Bank Division, American Bankers Association.

But now it is proposed to compel reorganization of our banking structure along branch lines by a process of coercion and political preference. Not by direct action—which would encounter constitutional and popular barriers—but by ingenious subterfuge, branch banking is one objective of a plan which would imperil, if not quickly snuff out, thousands of sturdy unit banking institutions. The fact that many of them are quite as old and sternly tested as the intriguing foreign theory to which they are expected unresistingly to give way is entirely ignored.

This change of front stirs into fresh conflict powerful forces which wisely had been subdued for half a century, almost forgotten amid unexampled national progress. And all because from Section 19 of the Glass bill—not passed by either house of Congress when this was written—was intentionally omitted any provision preserving equality of opportunity as between national and state banking institutions. The settled national policies of a dual banking system, state sovereignty, freedom of individual initiative, and resistance to a concentration of financial power in a few private hands, are pulled from the archives and once more made national issues.

Section 19 would authorize any national banking association with capital of $500,000 or more to establish

When branch banking becomes only the window dressing for a determined drive to destroy our whole dual system, it strikes at the very foundation of American principles. In that guise, it repudiates the native forces which have made our people great and strong, and glorifies the inhibitions which have helped to make some foreign nations decadent and weak. It extends into our most vital economic field the dangers of an enlarged Federal bureaucracy, ready at hand for the best or worst political machination, even though any type is repugnant enough.—*The Author.*

branches at any points within its state of domicile or within its business area up to 50 miles beyond state lines. Within that enlarged radius, the sky would be the limit: no restriction of such power to states granting state-chartered institutions even remotely similar powers; no check-rein upon branch bank expansion into territory already adequately served; no limitation to prevent branch banks from springing up on every corner like filling stations, and no respect for whether particular states choose to have branch banking within their borders. Nothing. Just that: branch banking whether a state wants it or not.

The reasons for this revolutionary proposal are not clear. The supposed benefits are less so. But the adverse effects, both immediate and progressively increasing, are plain. The state-chartered unit bank or trust company —and the unit national bank as well —would be given three choices. It could sell out to the highest bidding branch system at a price dictated by threat of ruinous competition. It could liquidate, either before or after wasting its depositors' resources in a futile struggle. Or it could scramble into the race for branches, a race certain from the start to go not to the swift, not to the strong, but only to the big, and ultimately to the biggest. And that in the United States of America! Could there be a more ironic addition to the program for George Washington's bicentennial?

Are such assumptions too harsh? Would every national bank enter the scramble for branches? Certainly not; but only a few would need to in order to bring about the most ominous concentration of financial power in history. Would every branch system ruthlessly stifle unit competition wherever encountered? Certainly not, but any branch system *could* do that *within the law*. Would Federal authorities countenance dog-eat-dog competition? Not openly, in any event. Probably not, even by intent. But their continued discrediting of state-chartered banks and trust companies—a discrediting which plainly has been a factor in the suspensions which they now view with such pious solicitude and for which they pull every political wire to legalize branch banking as a cure—makes anticipation of their attitude a matter of pure faith rather than of current observation. But, whatever their intent, what supervisory authority can hold out against tactics sanctioned by the letter of the law?

Give any blue-sky promoter with $500,000 the control of a national bank charter plus the comfortable sanctuary of Section 19, and the speculative wreckage piled up in a dozen other fields in recent years would be insignificant alongside the banking havoc he could wreak.—*The Author.*

SPECULATIVE PROSPECTS

THESE are no idle fears. With human nature what it is, this proposed change is a direct threat against the dual banking system. Where laws provide loopholes, let alone open invitation, for the acquisition of fabulous wealth and power irrespective of injury to the public interest, there will be men to seize such opportunities. It is not the condition of being big, but the process of getting big quickly, that yields large speculative profits. And the chance for quick profits inevitably attracts men eager to get while the getting is good. Give any blue-sky promoter with $500,000 the control of a national bank charter plus the comfortable sanctuary of Section 19, and the speculative wreckage piled up in a dozen other fields in recent years would be insignificant alongside the banking havoc he could wreak.

Section 19 says many things to many people. To existing branch systems, to national banks which might start branch systems, and to financial pirates now fortunately far removed from banking, it says:

"You are the fair-haired boys. The lid's off. Shoot the works. We Federal bureaucrats give you that power and preference. Not because you are already the preponderant part of our banking structure, for you are not. Not because you have avoided mistakes in the past, for you have not. Not because you are equipped alone to serve the manifold banking needs of a great and growing country, for you are not. No, not for reasons of that sort, but only because we like you and believe you have been made good and pure by exposure to our super-man supervision and our flawless Federal regulation. Go right ahead. We'll turn our backs while you snatch the birthright from the unbelievers."

To all state-chartered institutions and country banks in the national system, Section 19 in effect says:

"You are unclean. You are so stupid that you manage your banks by the light of your own observations, experience and judgment, instead of accepting without question the divine word as interpreted by the only true prophets, the Washington bureaucrats. You are wrapped up in your insignificant little communities. You are obdurate to the point of serving their puny little interests, instead of giving a few big banks in the large centers your money to finance a new Florida real estate boom, a bigger and better stock market jamboree, or direct international loans in a really big way.

"Who gives a hoot about your tiny stores, your miserable little factories, your insufferable agriculture? If you wouldn't lend money to farmers to grow crops, growers to feed livestock, and working men to build homes, but would put your money in these marvelous general market securities out of which you always can get it (at least 10 cents on the dollar) at a moment's notice, we wouldn't have had all these annoying bank failures. You are a menace, a stench to high heaven. We haven't been able to get rid of you by direct or subtle propaganda, so we'll have to put you on the chopping block. Scat, scram, get out!"

To the public which has put the bulk of its banking capital and three-fifths of its deposits in state banks and trust companies, Section 19 says:

"You poor idiots! You might lose your

Where other countries have stifled growth, commercial progress and development of natural resources by head-office branch banking, America has grown to be and still is the most powerful nation in the world on the honest mistakes of its bankers.—*The Author.*

THE TWO OPPOSING VIEWS

WHEN George E. Anderson in his article in our May issue entitled "Washington Looks at the State Banks", reported the revival of the proposal for a unified banking system under Federal authority, the question was asked, "but is it wanted?"

Believing that every banker in the country has an opinion on this issue, readers were asked to write the JOURNAL "what you think". From the letters received voicing these conflicting opinions, two have been selected for publication as typical of those favoring and opposing the measure. The letters follow:

TO THE EDITOR:

Our emphatic opinion is that no satisfactory banking system can ever be devised that does not apply equally to all banks, and that only through a national system, not too closely restricted as to details of management and investment, can the results that obtain in England and Canada be reached.

The solution of the question as to whether the plan shall be based on unit or group control is not essential in the preliminary stages. Competence and integrity cannot be legislated into existence, but by proper processes incompetence and dishonesty can be reduced to the minimum.

The natural competition for the maintenance of two systems side by side is one of the first causes for breaking down safeguards, and thus inviting carelessness and incompetence.

The loss from our national system of some of our large city banks and many of our country banks is due to restrictions of Federal laws not encountered in the state banking codes. This result follows whether or not such restrictions are right and proper. Why should banks submit to what they consider undesirable restrictions when a more liberal state charter is open to them, or vice-versa?

We believe banking should be carefully supervised and restricted in the interests of depositors, but we believe also that periodical political tinkering only makes a bad matter worse.

Whether or not it is within the power of Congress to bring about a single system is open to serious question, but we believe that such an end is so desirable that, if no such avenue is open, then the states should be induced to surrender their charter privileges to the Federal Government. It is a long process, not easily planned, and difficult of execution. The work should be carried out by bankers who are fully aware of their responsibilities and who have demonstrated their fitness for such an important task, not by those individuals seeking business or political advantages.

J. W. McCOY
Cashier, First National Bank,
Ashland, Oregon.

TO THE EDITOR:

Briefly stated, I am opposed to the idea. Any sanction of it would be based on two primary motives as follows:

1. Bureaucratic control at Washington.
2. Promotion.

Unfortunately these two motives are involved in a trading proposition whereby the big banker interested in enlarging his bank by means of purely promotional activities concerning unit banks would consent to the incubus of unified bureaucratic control of banking in order to get what he believes he can get if allowed to exploit the unit bank field, independently of state laws respecting branch banking.

The article quotes Senator Glass as saying, "I think the curse of the banking business in this country is the dual system." The writer believes that the curse of the banking business in this country is *promotion* of group, chain and branch bank systems.

Senator Glass would trade what he sees as a curse, for an infinitely more dangerous one. Were Washington to bend its efforts toward making Federal Reserve membership more attractive, the difficulty in the dual bank system (from the Washington viewpoint) would gradually iron itself out.

C. F. ZIMMERMAN
President, First National Bank,
Huntingdon, Pennsylvania.

---

shirts. These local institutions, chartered under the ridiculous laws of hayseed legislatures, are not what they ought to be. Is it because they are unsafe, dishonestly managed, incompetently operated, or inadequately regulated? No, for they are all right in those respects. It is because they keep your money for constructive employment at home, because they are interested in developing your little communities, because they help your unheard-of little businesses to grow and thrive, and most of all because we bureaucrats don't regulate them and because they don't have branches. A bank isn't really a bank until it has a lot of branches, and until its control has become far enough removed from local conditions, local experience, and judgment based on knowledge of the character of local people, to permit it to be run by statistics and by slide-rules. Imagine trying to run a bank by intelligence and experienced instinct of management! Why, the only safe way to run a bank is by rules, distant committees and orders from Washington.

"We'll make you a proposition. If you will withdraw your money from these state-chartered institutions, put it in these branch banks with headquarters in New York or some other distant big city, and promise never to ask to borrow any of it for your petty business enterprises and your agriculture, we will promise to hope there will never be any more bank failures. We can't be certain, but we'll hope. It's true that some city-wide branch systems have failed, but that was probably only because the branching area wasn't big enough to get money entirely away from you folks who might borrow it and tie it up in frozen loans.

AND EVEN MORE—

"BUT we'll do more than that for you. We'll make the United States even as strong, even as populous, even as well developed as Canada. Canada, you know, is our model. Everything she does is right. Or we'll make the United States just as prosperous, just as free of bank failures as England, or France, or Germany, or Australia, or New Zealand. To do that, we would have to depreciate the value of your deposits from 25% to 100%, but it would be worth it to avoid these terrible bank failures which have tied up 5% of your total bank deposits. Wouldn't that be dandy? It's marvelous what our branch systems could do for you, if you only would give up your childish notion of wanting to be just Americans in the ordinary sense."

Continuing in another vein, just what more substantial benefits than the foregoing would the American people stand to gain from a single unified system of branch banking? Even if these branching systems of foreign countries were infallible—and the failure of 16 Canadian banks, one with 400 branches, gives pause on that point—should we adopt them at the cost of arresting American development and enterprise? Where other countries have stifled growth, commercial progress and development of natural resources by head-office branch banking, America has grown to be and still is the most powerful nation in the world on the honest mistakes of its bankers. From pioneer times, they have been willing to make loans of money at least partly their own on security in which tangible assets were no more important than the character, industry and earning power of borrowers (CONTINUED ON PAGE 61)

UNEMPLOYMENT: The Urgent Problem of Adequate Relief

Two Views of a Situation Demanding Quick Action

By GEORGE E. ANDERSON

The big, broad angles of this national emergency are presented here by Mr. Anderson. JOURNAL readers know him well as a frequent chronicler of Washington happenings and as a careful reporter of Congressional developments in their relation to banking and business.

•

THERE are two ways of looking at the matter of unemployment relief, from the top down and from the bottom up. In other words, the question is whether some measure of employment for the millions out of work may best be obtained by a grand, sweeping gesture of the Government in Washington with Federal funds which may trickle down to the man in the street hunting a job, or by action of local, municipal or state authorities more directly in touch with job seekers, more directly responsible for their well-being, and working upward through them toward general prosperity.

One thing is certain; no one wants the dole. The appalling results of the dole system in Great Britain and Germany have effectively nipped in the bud any such proposition for the United States. Nevertheless there remains the question whether the primary responsibility for relief rests upon the Federal Government or the state and local governments. In a way it is a question between private initiative and socialism. It is a question of principle as well as one of practical procedure.

Accordingly, there are two theories of relief. One advocates the inauguration of a great program of public works by the Federal Government—postoffices and other public buildings, highways, waterways, bridges, dams and what not —all at the expense of the Federal Government and, inevitably under present conditions, involving an enormous increase in the public debt.

KEYSTONE-UNDERWOOD

Part of the cavalcade of unemployed war veterans which entered Washington to urge the passage of bonus legislation by Congress

To this plan there are several serious objections, one of which is that practically everything in this line which is really needed, truly economic, has already been undertaken. Expenditures of the Government in Washington on this account in the two fiscal years 1931-1933 amount to about $700,000,000 and Federal authorities claim that it is doubtful if another $100,000,000 in addition to the regular program could be spent with economic justification in the new fiscal year. Another objection is that such a program is ineffective for immediate relief. Assuming that plans and specifications for all such works are available, few of them could be carried out within a year, while most of them require perhaps two years and some as many as five. The actual employment promised is entirely inadequate.

PUBLIC WORKS

THE more serious objection rests upon principle. These public works are not now required and are economically unjustified. Expenditures for them represent unjustifiable waste and the country "cannot squander itself into prosperity". They mean debt, a large increase in taxes for interest and amortization, again throwing the budget out of balance and precipitating another era of doubt and uncertainty which counteracts any benefit from the general program. Moreover, the floating of unnecessary bond issues at this time takes from the country funds needed for actual business purposes, thus counteracting the efforts of the Government to ease credit conditions.

The other theory of relief contemplates more or less direct aid, for business rather than for individuals, from states and municipalities. The general proposition is that state and municipal governments shall not only inaugurate all public works which represent earning power or a saving in public expenses—"self liquidating" enterprises as they are termed—but shall also encourage private capital to do the same, even where state or municipal aid is necessary. Where states or municipalities are unable to borrow funds advantageously or by reason of debt limitations, it is proposed that they may be financed by the Reconstruction Finance Corporation whose credit limitations shall be increased to the necessary amount.

Private corporations may be extended

GALLOWAY

Teaching gardening to the youngsters, as we see it being done here in a New York town, can be an important relief measure. The article below describes a garden project in Illinois

similar facilities. By this plan any increase in the Federal public debt will be avoided while any increase in state or municipal indebtedness will be off-set by the self-liquidating nature of the enterprises undertaken. To this general theory the proponents of the bond-issue-public-works program offer the objection that it is entirely inadequate to meet the situation.

Out of these various propositions emerge certain principles. The first of these, perhaps, is recognition of the primary responsibility of the states for direct relief with only supplemental relief from the Government in Washington. Another is the erroneous idea that the Reconstruction Finance Corporation affords a means of raising necessary funds without involving direct obligations of the Government and an increase in the public debt. A third is that, whatever advances are made for public works or enterprises under private control, they shall be profitable undertakings, "self-liquidating," representing direct earning power or at least direct economies.

Will the results justify the outlay? The answer lies not in immediate results but in the effect of relief efforts on private business. It requires little calculation to realize that all the public works program the Government can inaugurate, all the money the state and municipal governments can spend, are but a drop in the bucket compared with the demands of the situation. Only a general resumption of normal business can really restore normal employment and furnish enough jobs to go around. It is equally obvious that any attempt to afford unemployment relief which endangers public credit, shakes public confidence or takes funds from business are harmful.

How One Community Reached a Solution

A Local Relief Program That Has Avoided Outside Aid

By OMAR H. WRIGHT

OUR town's 10,000 population, with about 150 families getting relief, is approximately half farming and half industrial. It is worth emphasizing that our community has avoided turning to state or Federal sources of aid. Our only outside help has been a car of flour from the Red Cross.

How many needy families there will be by next spring, unless an industrial upturn intervenes, is hard to estimate. This year, contrary to previous experience, the number increased right through the spring months. Actually, several families which last year contributed to the relief fund, are now on the list of those getting help from it!

Money is the starting point of any relief program. We raised $15,000 by contributions and our township supervisors appropriated $25,000 for relief. About $20 a month will take care of a family.

Wherever possible, this money is used to provide work. A considerable portion of the fund has been assigned for wages on highway, road, street and park work. Unemployed men get two or three days' work each week. They are not paid in cash, but in orders for food, fuel or clothing and on occasions even for rent—whatever the family most needs.

Important for meeting the next eight or ten months is our garden project. The committee has some 50 acres of good garden land in town and on the outskirts, in charge of a supervisor. He visits the families, assigns a garden to the man who needs and can handle one, and helps map it out for proper crops.

Our town's gardens are laid out primarily to yield enough storage crops to carry the family through the winter, with only secondary attention to the summer's food. The women's auxiliary of the committee has taken under its wing the whole subject of canning; prodigious quantities were put up last summer. In (CONTINUED ON PAGE 66)

•

Mr. Wright, whose active leadership in this community effort places him in position to know whereof he writes, is president of the Second National Bank of Belvidere, Illinois, where the relief work described is being aggressively carried on

When a Bank Needs Funds Quickly

Full Credit Data Should Accompany Loan Collateral

By WILLIAM McC. MARTIN

With just a little forethought and care a bank can have its bill case in shape for use immediately whenever necessary. But there are many banks which do not have statements of their borrowers or adequate records of credit data.

IT seems incredible, but experience has shown that it is within the bounds of probability for a bank to have loans, the majority of which will be paid promptly at maturity, and still be in such unliquid condition that it is not fully prepared to meet emergencies and safeguard the interests of its depositors.

For instance, a bank may have served a community for many years and some morning wake up to the fact that a run is on. It is possible that some bank in the adjoining county has had to close. People in the town where the bank is located hear of this and get the mistaken idea that they should withdraw their deposits. Although time and again the Federal Reserve Bank of the district, through its personal relations men and other mediums, has tried to impress upon the bank the necessity of having its bill case in such shape that it could immediately use its eligible notes for rediscount; and although the bank knows there is in existence the Reconstruction Finance Corporation, which will gladly lend it money on good collateral, the bank finds that it has very few notes which it can take either to the Federal Reserve Bank or the Reconstruction Finance Corporation, even though it feels sure the notes are good and will be paid at maturity.

This is certainly not the result of wise banking. There come times in the life of every banker when ordinary common sense should indicate possibilities. It is useless to say we are strong, have the confidence of the community and it cannot happen to us. The fact is that it may happen and does happen to institutions which have said just this.

In the life of every bank there may come a time when it needs outside help and for the protection of its depositors it should be in position to avail itself of this help. The Federal Reserve Bank, the Reconstruction Finance Corporation or its correspondents should not be asked to put out money "sight unseen". Where loans are under $1,000 the Federal Reserve Bank of St. Louis will take the banker's estimate of the borrower provided it is given in sufficient detail to enable the bank to come to some conclusion as to responsibility. It would like to have the signed statement of all borrowers and hopes the time is coming when a member bank will not be satisfied to make a loan unless it has in its files the signed statement of the borrower, it makes no difference whether the loan is large or small, but in order to meet the situation and be helpful, the Federal Reserve Bank is willing to take the banker's estimate on small loans.

On loans of $1,000 or more the Federal Reserve Bank insists on the signed statement of the borrower, but there are banks that for some unaccountable reason not only do not have signed statements of their borrowers, but neglect to put with the note their banker's estimate of the borrower's condition. They will even make real estate loans when they have nothing in their files to show whether the borrower is vested with title and it does little good for such a bank when asking correspondents or others to advance money to say, "Why, we know all about the title and this is a perfectly good loan".

It should go without saying that a bank will not make a loan unless it thinks it is good. The banker must know upon what facts he bases his conclusion. Such being the case, at the time of making a loan of less than $1,000 it should take very little extra time for him to place on the form prepared his estimate of the assets and liabilities. Not to do it is to make that note, though good, technically useless for sudden emergencies. If the note is over $1,000 it is certainly reasonable for the banker to ask for a signed statement and there should be little difficulty in the customer giving it.

Then the notes themselves should be in proper shape and not be so changed as to open them to the suspicion that they may be altered instruments. In practically every instance such a suspicion could have been avoided if the bank officer who made out the note when a change was necessary had rewritten the note. It does not take so much time.

A bank cannot call itself liquid when its notes, even though good, are in such condition on account of lack of necessary credit data that it cannot use them for borrowing purposes in an emergency. During the swirl and rush of a run is no time to try to do things that should have been done months before. In fact, at such a time it may be impossible to do these things.

Because the note is a small note is no reason why these things should be neglected. There was a time when probably a correspondent bank would say, "These are (CONTINUED ON PAGE 60)

William McChesney Martin, Governor of the Federal Reserve Bank of St. Louis, tells bankers, in effect, how to keep their powder dry. A bank is not liquid, he says, unless its eligible paper is supported by credit data that make it satisfactory for borrowing in emergency.

Master Banking!

By CRAIG B. HAZLEWOOD

The last two years, thinks Mr. Hazlewood, have changed the whole picture of bank management. When Mr. Hazlewood first launched the movement for better bank management early in 1929, the nation was riding the crest. The problems faced today are entirely different. Bankers, he believes, must change their thinking drastically and waste no time doing it. In this article, as in several recent speeches, Mr. Hazlewood describes the new era in bank management growing out of the depression. He is a former President of the American Bankers Association and is vice-president of the First National Bank of Chicago.

BANKING and bankers have come in for a lot of criticism during the past two and one-half years. Much of it is deserved. Far more, however, is utterly unfounded on fact. Banks and bankers never have been, never will be perfect because human material is fallible. But the average of demonstrated banking ability and integrity has been rather high, and it becomes higher every month that depression conditions persist.

For instance, one hears a great deal about the poor banking which uninformed critics hold uniformly responsible for the thousands of closed banks. At the same time, almost nothing is said of the feat accomplished by ten banks to every one that has closed: Banks everywhere have felt the pressure of unwarranted withdrawals, have liquidated assets by the billion, paid every dollar as called for, and still have their doors open. This looms far larger in banking's private ledger than do the closings which get newspaper headlines and oratorical attention in legislative halls.

Those banks which have successfully withstood the hammering of the past few months are chiefly the better banks. With fewer banks, those remaining now have a better opportunity to make money and remain prosperous. And with the folly of unwise competition demonstrated to the satisfaction of everybody, banks are no longer laying themselves open to trouble from some of the sources which previously they often seemed almost to invite. Bankers have learned many things, including the need for learning even more.

If one fact stands out preeminent above all others learned from this time of panic, it is that every banker must be equipped with a complete knowledge. Knowledge of the banking business, knowledge of his own bank. No longer is it possible to operate on a basis of guess and hunch—and we may as well admit that a good many institutions entered the financial storm of the past years without adequate equipment of knowl-

MR. HAZLEWOOD

edge such as is required. Facts, and facts alone, are the answer.

"Bank management" means every aspect of policy and practice in running a bank. Somehow the phrase has come to mean in many bankers' minds those activities such as cost research and account analysis which lead to making each customer pay his way. Desirable as these activities are, they fall far short of being all of bank management. The time has come when we must begin to think of bank management as exactly what the words mean: Managing a bank. To manage a bank the bank executive must have knowledge and facts. Otherwise the bank and its customers are likely to manage him.

Management alone can supply the answer to whether any individual bank now in reasonably good condition will succeed. For management alone can provide the loan and investment policies and the operating practices that will spell the difference between success and failure. Good banking in 1932 and the years to come must never swerve from an advocacy of better bank management, in the basic meaning of intelligent administration and operation of our institutions according to knowledge of the facts rather than by guess and hunch.

We must study our problems thoroughly, intimately, with the very best thinking at our command. We must have the aid of the best advice and judgment that our directors can supply. And we must borrow from the knowledge and experience of others who have learned from wise, successful banking and from mistakes as well. Thus we can bring to bank management in these troubled times the knowledge of banking and of our own banks, based upon facts and only facts.

Moreover, we must broaden out our knowledge and help others to broaden theirs—not from altruism, but because we have by now all learned that what happens to our competitors and neighbors affects us almost as directly as happenings inside our own doors. Any banker who not only pursues this policy for his own enlightenment but also helps his neighbors to the same policy thereby increases the likelihood of bringing his bank prosperously through a period when banks less factfully managed are likely to founder.

These present times have brought up for scrutiny, in the light of experience, many of the fundamentals of banking. Most of the old principles, viewed from the standpoint of the facts, are renewed in vigor. Some few have been disproved to the mind of the thoughtful banker who prefers the truth to traditions. Before we consider which specific types of information are most vital to good bank management, suppose we review a handful of the principles.

Periodically, ever since most of us

Certain sets of facts about our banks are essential to good management. The three most necessary facts for any banker today are knowledge of (1) Capital position, (2) Liquidity, (3) Liquidity plus borrowing ability. On these three phases we must always be definitely informed.

can remember, someone has been arising to remark that a bank's responsibility is to its depositors, not to its borrowers. During the halcyon days this went out the other ear. So many of the depositors were borrowers in those times that we tended to lose sight of this most basic truth in our business. Borrowers are, and must be thought of only as, one means of enabling us to employ profitably the funds of our depositors. The moment any banker's thinking becomes confused on this point is the moment when he takes unwise steps that lead to danger. Today we all know this because we have been forcefully reminded of it.

Again, deposits are liabilities; they are not assets. This basic fact is easy to lose sight of because the most spectacular goal for a bank is size, when the true north lies toward safety. Not that size and safety cannot live in the same banking house. But the good banker never overlooks that size is desirable only as it can be attained without any sacrifice of safety. We were inclined to forget that deposits are liabilities. Now we know it—they may under certain conditions be liabilities of the most pressing sort.

It is best to have a clear knowledge of the capital situation of a bank. The man who, above all others, needs this information is the banker. A simple computation figures our capital, surplus, profit, special and general reserves against our losses, our estimated losses on slow assets, our bond depreciation, and so on. After figuring this, we know what we have left in the way of capital funds. If the depreciation is serious, it leads to a program of replacing the losses with new money. It is much better to rehabilitate a bank's position before the time to worry about the legality of accepting additional deposits. Moreover, it is easier to do before the need stares the banker in the face.

Not less frequently than once a week we need to calculate the percentage of our total deposits represented by assets that we can turn into cash in a day. Under present conditions this primary liquidity should be close to 50 per cent —and if it begins to fall we must make every effort to restore it, even if we have to call good loans. For the old theory of average withdrawals is no longer operative in times like these—or if it is, the percentage of deposits likely to be called for far exceeds what it was in the days when most bankers learned the theory.

At this point let me digress for a moment. Mention of the possibility of calling loans brings to mind the criticism so frequently made today, that the banks are holding back business by being too tight in extending credit. There may be isolated examples available as testimony on this point, but they are the exceptions. Large commercial banks today welcome rediscountable paper; they cannot get enough of it, and must let huge cash balances lie unprofitable or idle, because the stagnation of business and industry has made such paper exceedingly scarce. Small banks, under continuous pressure of unreasonable deposit withdrawals, of course lack the loanable funds. But this is the public's fault, not the banks' fault. The banks must safeguard their depositors' money by safeguarding their liquidity.

BORROWING CAPACITY

AT the same time we figure primary liquidity, we need to compute liquidity plus borrowing capacity. Any competent banker knows what he can borrow on his bond list, governments and otherwise; if he has any doubts, he had better find out from his correspondents immediately. Strangely enough, a great many banks have not yet ascertained just what they can obtain through the Reconstruction Finance Corporation on their assets which could not otherwise be readily turned into cash. It is much safer to file an application before a loan is needed than to wait until a crisis. For the applications are detailed, appraisals take time, and approval of an R. F. C. loan seldom can come overnight. It is permissible to apply for a loan from this source, get it approved, and then not take the money until it is needed.

The banker who stands the best chance to bring his institution successfully through this time of stress is the banker who reads, studies and constantly strives to enlarge his fund of information. The bankers' field of interest is: First, his own institution; Second, developments in the broad area of finance and economics; Third, current events particularly as they affect his bank and the general financial and economic situation.

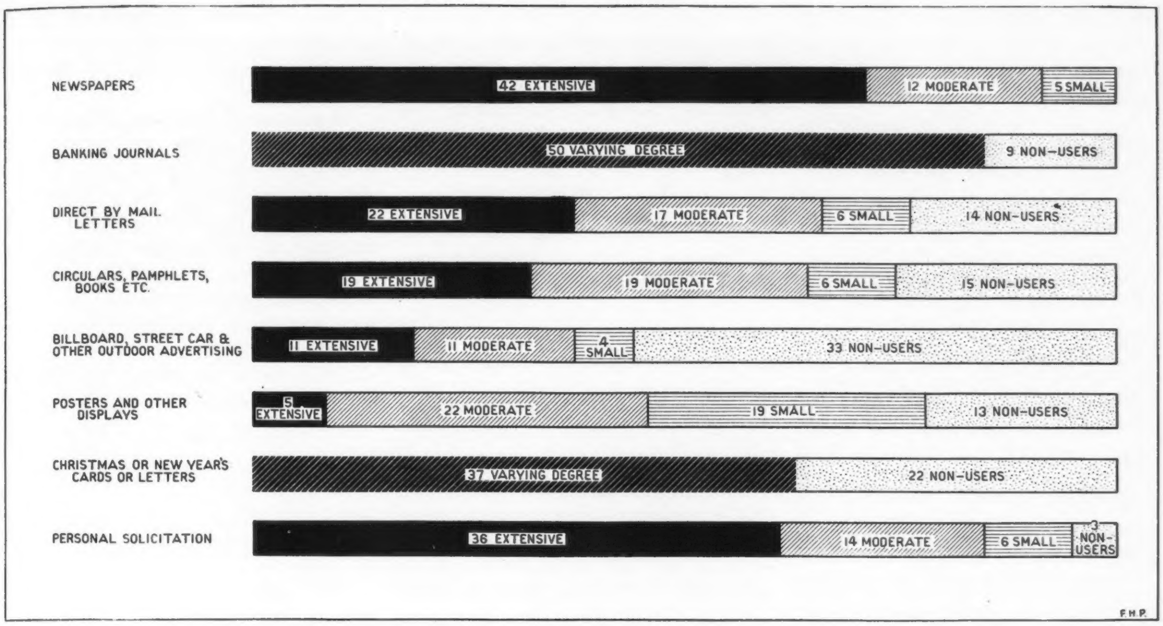
We must recognize that there exist no guaranteed, mechanical methods for preventing inefficiency in management. There is no substitute for knowledge.

ASCERTAIN LOSSES

ANOTHER place in which knowledge is essential today, as compared with guessing, is in connection with losses. Too many bankers have been willing to kid themselves about bad loans and investment depreciations. The only course open to good banking—and may Heaven protect the man who has not learned this from the past few months!—is to discover the losses, report them, take them.

All of this comes under the heading of good management based on facts. For as soon as a banker has actual knowledge, whether of his capital position, his liquidity, his prospective losses, or what not, he sees his future course more clearly than he possibly could by guesswork. Then, knowing his course, he plots it on his chart and holds to it. I dare say every banker reading this article can recall dozens of times when a factual analysis of a situation completely changed his whole policy of handling some important transaction.

Nothing else can take the place of good management by facts. During this panic we have seen it proved hundreds of times that examination and supervision cannot be relied upon to produce good management. Management is a dynamic, positive force that makes an institution outstanding, good, fair, or poor. Examination and supervision can only warn when the institution has taken a turn for the worse, and eventually they can only close the doors when their warnings have been repeatedly disregarded.



What mediums these 59 banks use, as reported in a recent survey, and how they use these mediums offer good suggestions in times like these

How 59 Banks Advertise

By T. D. MacGREGOR

A LARGE Southern bank sent a questionnaire recently to 78 other leading banks requesting pertinent information as to their advertising policies and methods. Just what mediums they were using and to what extent, what departments were being stressed, and other facts from their experience were sought. Answers were received from 59 of the banks.

The tabulation of results as to mediums used included nine major types. These were: newspapers; direct by mail; circulars, pamphlets, booklets, etc.; billboard, street car and other outdoor advertising; posters or other displays on the bank premises; personal solicitation; Christmas or New Year cards or letters; banking journals; letters to persons opening or closing accounts. Just how they used 'each type—whether extensively, moderately, in varying degrees, very little, or not at all—is shown in the accompanying chart. Moreover, 46 banks reported "yes" and 13 said "no" on sending out letters to new or closed accounts.

The replies also outlined a number of other means used in advertising their institutions. Among these were: letters to new stockholders, calendars, moving pictures, business reviews, monthly magazines, news publicity, participation of officers in public and charitable affairs, maps, premiums, school savings plans, new account contests, various auxiliary savings plans, diaries, engagement pads for executives, Christmas clubs, directories, gas bill payments, budget books for housekeepers, books for investors, and various other novelties.

•

Twelve of the banks advertise all departments regularly. Others reported the departments principally advertised as follows:

Trust	31
Savings	29
Bond or Investment	20
Foreign	18
Safe Deposit	17
Commercial	13
Travel	5
Mortgage Loan	3
Women's	3
Christmas Savings	2
Country Bankers	2
Travelers' Cheques	2
Collection	2
Bank Relations	1
Title Guarantee	1
Transit	1

Eleven of these banks reported that they were using institutional copy only.

Most of the institutions reported that they believed the mediums utilized to be a considerable factor in developing their business. And of the banks which specified the devices that they believed to be the most potent in developing their business, the largest number specified "personal solicitation." Next in line came newspapers, and then billboard advertising.

As to the departments principally advertised, the summary of answers included 16 different departments with the trust leading, followed closely by savings and with the bond, foreign, safe deposit and commercial departments following in the order named. A complete tabulation with figures is given elsewhere on this page.

Twelve banks reported all departments advertised regularly, while 11 banks featured institutional advertising only.

The following extracts are taken from responses of particular interest:

Daily Newspapers—"Our chief

medium of advertising is through the daily newspapers, our advertisement appearing daily. After the advertisement has appeared, we then follow this up with reprints which we use as circulars, also blotters. Our purpose of adopting the blotters is that we use them as envelope stuffers. What we mean by this is that in each letter leaving our institution there is one of these blotters. As a result they are scattered far and wide throughout the country. The writer, personally, has walked into a man's office and found one or more of our blotters on his desk. We use the best blotting paper possible and find it a very inexpensive method of advertising.

"In addition to using these blotters as envelope stuffers, they are distributed among the employees of the bank, chiefly among the tellers, who use them in making entries in passbooks and then allow the blotter to remain in the passbook which is carried away by the depositor. We receive wide circulation by these methods and have had some very complimentary remarks in regard to the use of them."

Opened and Closed Account Letters—"In regard to the opening and closing of accounts we send letters to both parties, one of thanks and the other of regret. In addition to these, we also send a letter to customers who are using only one or more departments in the bank, suggesting to them that they use all departments. In this letter we have received some wonderful results."

Exchange of Information—"We have a regular system of obtaining prospects by forming a little organization of non-competitive businesses. Members of this organization are all executives, and represent respectively a bank, safe company, stationery house, financial reporting agency, sign company, desk company, typewriter company and a public service corporation.

"Our procedure is to exchange all in-

Mr. MacGregor, who reports here the interesting and helpful results of an advertising survey made by a large bank, is an authority on bank advertising and a frequent contributor to banking and advertising periodicals. He is vice-president of Edwin Bird Wilson, Inc.

formation that comes to each one regarding new businesses, changes in management and changes in location, as we have found over years of experience, this is the type of information that is valuable in securing new business. This information is exchanged in a very simple manner, by each of us supplying the others with a number of stamped, self-addressed envelopes, and every night we exchange by mail whatever information of the above type has come to us during the day. This means that each morning the bank, for instance, gets a letter from each of the other members, giving all information that has come to them in the classes mentioned and, in turn, the bank sends all the information it has. This is the most effective and primary source of our leads.

"In addition, we keep a close watch on hotel arrivals, get as much as possible from our real estate friends, the transfer companies, incorporation papers filed, the industrial department of the Chamber of Commerce, and of course our own depositors, directors and stockholders. We never call on a prospect without a reason and we find these sources give us plenty of reasons and prospects."

Organization Effort—"Our whole policy is based on the indisputable fact that the personal future of every officer and every person in the organization depends upon the rate of progress which our bank is making. The development of a bank does not and cannot lie solely in the hands of one or more individuals. It rests upon the shoulders of the organization as a whole, and of course, particularly of all the officers collectively and indi- (CONTINUED ON PAGE 62)

As It Was Done In 1832

NEW ORLEANS CANAL & BANKING COMPANY.

NOTICE is hereby given, by direction from said Bank, that the books for transferring stock of said Company, at the Bank o New York, will be closed for 15 days, after the 24th inst. Notice is also given, that the last instalment on such shares of said Company as are not already made full stock, is payable on the 26th, inst, when it will be received at the Bank of New York, on such stock as may then be on the books here

A. P. HALSEY,
d15 t26 Cashier of the Bank of New York.

—in 1872

JOHN MUNROE & CO.,
Bankers,
No. 8 WALL STREET, NEW YORK,
ISSUE CIRCULAR LETTERS OF CREDIT FOR TRAVELLERS, AND DRAW BILLS ON
MUNROE & CO., No. 7 Rue Scribe, Paris, and ALEXANDERS, CUNLIFFES & CO., 30 Lombard Street, London.

DREXEL, MORGAN & CO.,
Bankers, 53 Exchange Place,
DRAW SIGHT AND TIME BILLS, MAKE TELEGRAPHIC TRANSFERS AND ISSUE TRAVELLERS' AND COMMERCIAL LETTERS OF CREDIT ON
J. S. MORGAN & CO., London,
AND
DREXEL, HARJES & CO., Paris.
FIRST-CLASS STATE, CITY AND RAILROAD LOANS NEGOTIATED.

AUGUST BELMONT & CO.,
BANKERS,
NO. 50 WALL STREET, N. Y.,
ISSUE LETTERS OF CREDIT TO TRAVELLERS, available in all parts of the world, through the MESSRS. DE ROTHSCHILD and their correspondents.
Also, make telegraphic transfers of money on California, Europe and Havana.

—in 1900

Guaranty Trust Co.
of New York.
NASSAU, CORNER CEDAR STREET.
CAPITAL, - - - - $2,000,000
SURPLUS, - - - - - $3,500,000
ACTS AS TRUSTEE FOR CORPORATIONS, FIRMS, AND INDIVIDUALS, AS GUARDIAN, EXECUTOR, AND ADMINISTRATOR. TAKES ENTIRE CHARGE OF REAL AND PERSONAL ESTATES.
INTEREST ALLOWED ON DEPOSITS
subject to cheque or on certificate.

DRAFTS ON ALL PARTS OF GREAT BRITAIN, FRANCE, AND GERMANY BOUGHT AND SOLD. COLLECTIONS MADE.
TRAVELLERS' LETTERS OF CREDIT AVAILABLE IN ALL PARTS OF THE WORLD, AND COMMERCIAL LETTERS OF CREDIT ISSUED.

WALTER G. OAKMAN, President.
ADRIAN ISELIN, JR., Vice-President.
GEORGE R. TURNBULL, 2d Vice-President.
HENRY A. MURRAY, Treas. and Sec.
J. NELSON BORLAND, Asst. Treas. and Sec.
WM. C. EDWARDS, 2d Asst. Treas. & Sec.
JOHN GAULT, Manager Foreign Dept.

DIRECTORS.

Samuel D. Babcock,	Adrian Iselin, jr.,
George F. Baker,	Augustus D. Juilliard,
George S. Bowdoin,	James N. Jarvie,
August Belmont,	Richard A. McCurdy,
Frederic Cromwell,	Levi P. Morton,
Walter R. Gillette,	Alexander E. Orr,
G. G. Haven,	Walter G. Oakman,
E. H. Harriman,	Henry H. Rogers,
R. Somers Hayes,	H. McK. Twombly,
Charles R. Henderson,	Frederick W. Vanderbilt,

Harry Payne Whitney.

LONDON BRANCH,
33 LOMBARD STREET, E. C.
Buys and sells exchange on the principal cities of the world, collects dividends and coupons without charge, issues travellers' and commercial letters of credit, receives and pays interest on deposits subject to cheque at sight or on notice, lends money on collaterals, deals in American and other investment securities, and offers its services as correspondent and financial agent to corporations, bankers, and merchants.

Bankers.
BANK OF ENGLAND.
CLYDESDALE BANK, Limited,
NATIONAL PROVINCIAL BANK OF ENGLAND, Limited.
PARR'S BANK, LIMITED.

Solicitors.
FRESHFIELDS AND WILLIAMS.
London Committee,
ARTHUR JOHN FRASER, Chairman
DONALD C. HALDEMAN.
LEVI P. MORTON.

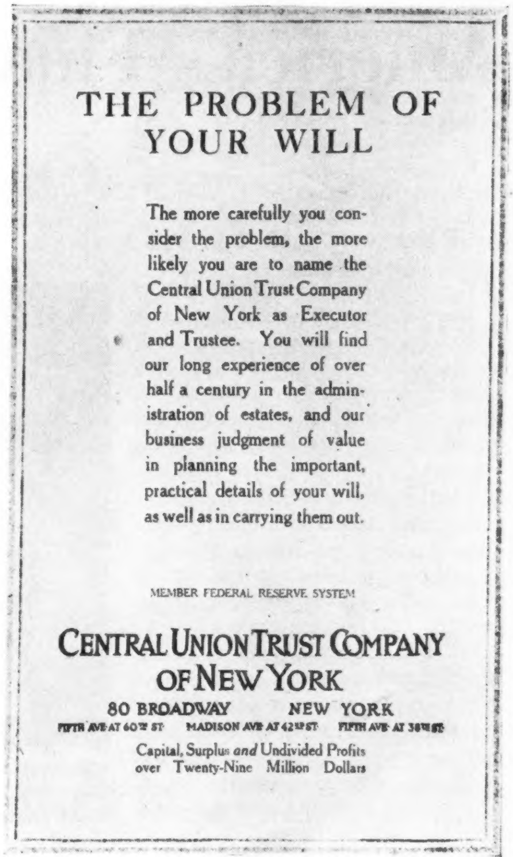
Delving into old newspaper files brought out these curious but typical specimens of bank publicity before the days of advertising managers and copy experts. Names we know, but how different was "advertising" then. The 1832 announcement occupied front page space

And Bank Advertising Pre-War, Post-War, and TODAY

—in 1914

The advertisements reproduced as examples of bank publicity in 1832, 1872, 1900, 1914, and 1920 appeared in the New York "Evening Post" in those years. The 1932 advertisement is one of the trust series prepared for subscribing members by the Trust Division of The American Bankers Association

—in 1920



—AND IN 1932!

An impressive background for Mr. MacGregor's report on how 59 banks advertise is provided in the accompanying reproductions, all of which with one exception were taken from the files of a New York newspaper. These old announcements reveal what most bankers know, that advertising in this field is in reality a development of the past 15 years. Note the announcements of 1832, 1872, and 1900. A timid effort with copy and illustration is evident by 1914, and a striking advance into larger space and wider copy appeal by 1920. The specimen of 1932 shows what is available now in effective illustration and copy effects for dramatizing present-day banking services.

An Essential Bulwark in America's Financial Defenses

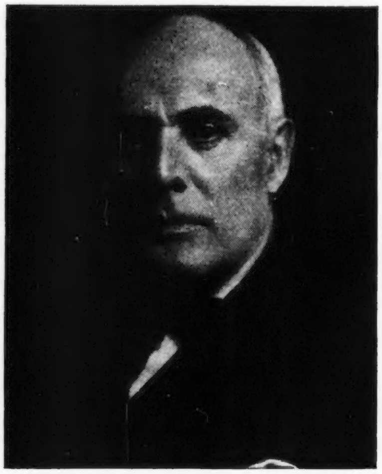
The Association Serves All Phases of Sound Banking

By FRANCIS H. SISSON

IT is the peculiarly difficult task of the American Bankers Association to serve many diverse, even conflicting, interests within the field of banking without discrimination and without violating or neglecting the fundamental welfare of any. The really astonishing way in which it has met the exactions of this task during the past year, when innumerable critical situations have demanded prompt and resolute action on its part both in behalf of banking and of the public welfare, challenges attention and calls for comment.

No two American banks are alike. Standardization has not yet destroyed their individuality nor reduced them to regimented uniformity, for from place to place, even through similar classes of institutions, there runs a refreshing variety. Being American banks, it is inevitable that this will always be so. For diversity is the inherent and major note of the American continent and of the widespread human life and thought that reflect its endless diversification. We are, in a sense, 48 nations with 48 points of view about many things. If that is the chief source of our national political breakdowns and economic disorganization—our lack of a planned social economy—it is also the source of the restless, indomitable individuality, variety and resourcefulness that have brought, and will continue to bring, this nation in net results, above all its muddling and retrogressions, the greatest progress for all its classes of people that has been achieved by any great nation.

The country bank is not like the city bank. Nor yet is the country bank of the western prairie the same as the country bank of an ancient New England town whose social background runs back to colonial Puritanism. The banker in the one will deal with different people, with different viewpoints and prejudices, from those that enter into the daily conditions and problems that confront the other. Different economic factors and social criteria will mean different methods, costs and results incident to the conduct of banking from place to place. These are fundamental facts in American life that cannot be overlooked in any approach to the banking question, whether of legislative control, managerial policies or organization contacts.



"The year's record," says Mr. Sisson, who is vice-president of the Guaranty Trust Company of New York and Vice-President of the American Bankers Association, "demonstrated the structural soundness of the Association's plan of administrative organization and operation and it constitutes a high tribute to the attitude of practical cooperation that animates the banking business. It confirms, in short, in terms of applied results, the fact that the Association stands as the nation's effective contact between public welfare and all phases of sound banking thought and activity, performing this function fully, adequately and with distinguished success under both normal and exigent circumstances."

The same is true as among the banks situated in our endless variety of cities —a city bank in one place may be as unlike another in many of its viewpoints and necessary methods of detail practice as any city bank is from any country bank. A bank in a great steel industrial center could not be substituted without a radical reconstruction of its policies, viewpoints and personal sympathies for a bank of the same size in a great city at the financial nerve centers of a far-flung livestock industry. Nor could either of them, nor the men in them, always be expected to see eye-to-eye with those banking institutions whose contacts are mainly with, not the production of basic wealth, but its distribution through the functions of foreign and domestic commerce—or again with those whose tempo and routine have to do largely with the creation and distribution of securities related to the fixed capital structure of the country and with the complexities of the money and securities markets.

Again, in addition to these psychological differences that varied business interests create in the institutional characters of our banks, changing environmental conditions also set up a wide variety of structural modifications in banking. In many cities, those for instance consisting of a number of self-contained neighborhoods, or where traffic conditions render access to any particular point easy, the single-office neighborhood bank is able to render satisfactory service to the public. In others where a specialized district, such as a financial district, renders service to all parts of a large place, or where congestion renders access difficult or makes necessary a splitting up of some lines of business among various plants or offices, or other physical conditions set up special problems, it may be desirable or unavoidable to develop city branch

As an association we in effect stand firmly on the platform that the things which unite us are always more important than the things which divide us, and so the American Bankers Association stands eternally as a protecting shield for the banking business as a whole and the spearhead for the furtherance of sound finance in the broad principles which apply to all alike. Special interests are absorbed in the general interest which the Association as a whole subscribes to, and whose cause it furthers. Defensively and offensively it is the shield and sword of the American bankers.
—The Author

banking in order for a bank both to maintain desirable contacts with changing business or to render proper service to its clientele.

Again some country towns may be best served by independent unit banks, or it might be better that their banking facilities be brought them through the medium of a whole or part time branch from a strong bank in a more or less nearby financial center of the region in which they are located.

It is because of these varying concrete conditions, rather than in consideration of any abstract theories of banking organization or inherent social questions of rightness or wrongness, that city branch banking is allowed in some states, county-wide in others, or even state-wide branches in a few, while in many others, where bankers from time to time have felt that conditions did not warrant any form of branch banking or that their own individual welfare as independent unit bankers would be jeopardized by it, branch banking in any form is prohibited.

I mention these familiar facts merely to focus emphasis for the moment on the wide diversification that exists in banking. These differences are basic. They constitute, from the viewpoint of each individual variety of bank or class of institution, vital elements in their success or very existence. These differences, therefore, cannot be brushed aside, or repressed or put to sleep merely by uniting all kinds of banks into a common organization, nor is there any thought in the conception or operation of the American Bankers Association aiming at bringing about uniformity at the expense of individuality or sacrifice of the right of each kind and class of bank to work along lines of its own particular expediency.

To the contrary, in fact, it is the purpose and work of the Association both to enable its members to obtain the maximum of results in promoting the welfare of banking along broad lines of common interest, and also to protect and advance their welfare along lines of special interest more fully than would ever be possible for them to accomplish by working as detached individuals, groups or classes. This is the vital characteristic of the Association. Its membership includes country banks and city banks in all sorts of localities. It includes banks chartered by the 48 states and the District of Columbia, and those chartered by the Federal Government. It comprises institutions whose functions are primarily savings banking, trust business or commercial banking, as well as a large number engaged in all three with an added interest in many cases in investment banking through an extensive bond department or investment affiliate. Finally, the Association includes both independent unit banks, banks operating city branch offices, banks engaged in thorough-going regional or state-wide branch banking, and likewise many institutions engaged in group banking operations that cover not only intra-state territories but groups of states.

DIVISIONAL ORGANIZATION

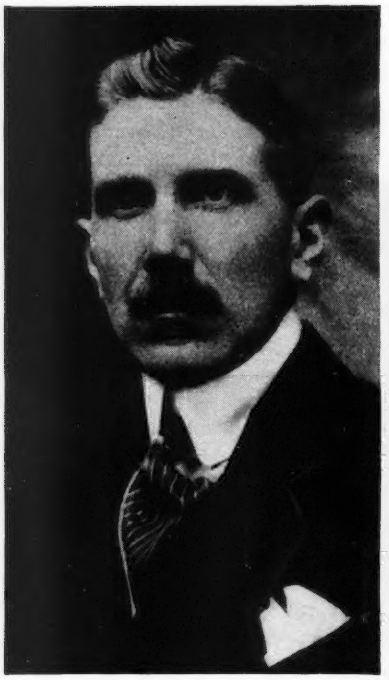
AS to functional differences, the Association is specifically and structurally set up so as to be able to particularize its services to its members and to facilitate their group cooperation along channels of their respective special interests. I refer, of course, to the divisions within the Association devoted to Savings Banking, Trust Business and Commercial Banking; the last named being likewise subdivided on charter lines in the National Bank Division and State Bank Division. The work in technological banking research conducted by each of these divisions is always carried out along lines of helpfulness both to large and small city and country banks.

While there are these wide differences in function, character, organization and viewpoints among banks, there are also basic elements of interest and welfare that are absolutely common to all banks no matter what their size or type. There is no bank but what is vitally interested in efficient methods, analysis of accounts and successful operating policies. The Bank Management Commission makes studies of the best practical experience in these fields and renders them available to all members. There is no bank but what is interested in proper defense against unfair or discriminatory taxation. The State and Federal Legislative and Taxation Committees have long rendered effective protection in this direction. There is no bank that is not interested in protection against criminal operations whether of violence or of fraud. The Protective Department conducts the world's most extensive system of crime prevention and investigation under private financial auspices. In these and many other ways is the united strength of banking put into effect for the common good.

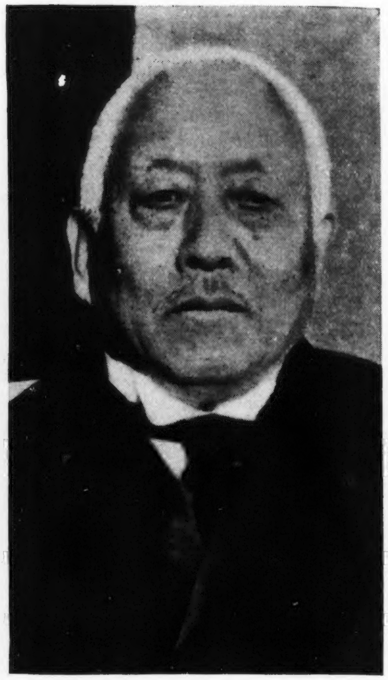
Particularly important is it in a period of general economic or political unsettlement that the banks, the same as any other line of commercial, industrial or social interest, be prepared to make common cause against destructive or imprudent legislation. In respect to the banks, in fact, this function of organized representation is fraught with as much general public welfare as special banking expediency. The banks are semi-public institutions. They are custodians of the massed financial interests of millions of people, enterprises and institutions. Much of the banking difficulties of recent years is unequivocably attributable to defects in the laws or shortcomings in political policies of bank char- (CONTINUED ON PAGE 64)

With the uncertain times that still lie ahead, a stronger and more powerfully buttressed Association than ever before is essential to the nation's welfare. From within banking careful reforms must be worked out in protection of the people's financial welfare, and from without banking serious menaces of unsound legislative tampering with basic economic principles and banking practice must be combated by all the power at the command of banking as an essential duty of good citizenship.—*The Author*

The Month



Militaristic—Chancellor Franz von Papen, who succeeded Dr. Bruening, says that Germany "needs a dictatorship on a strongly nationalistic foundation". A roster of von Papen's government reads like an excerpt from the days when the Kaiser was Germany.



Jingoistic—Viscount Admiral Makoto Saito, who succeeded the murdered Inukai as premier of Japan, reflects adequately Japan's religious faith in her national destiny. He believes that the way to make Japan great is by arms, action and faith in ancestors.

Washington—Secretary Stimson, who is willing that the United States should cooperate internationally to the fullest extent as long as the foreign definition of American cooperation is not confined to cancellation of debts and the practice of one-sided altruism.

Optimistic—Coincident with the recrudescence of nationalism throughout the world is the effort of many leaders, of whom Nicholas Murray Butler is outstanding, to turn the tide toward cooperation as represented by Geneva, Lausanne or a world economic conference.

Socialistic—Carlos Davila established a nationalistic, anti-capitalistic dictatorship in Chile by ousting President Juan Estaban Montero. Within a week he resigned and was succeeded by Rolando Merino whose views are still more vigorously nationalistic.

EDITORIALS

A Suspended Bank's Trust Assets

WHEN the Bank of United States was closed December 11, 1930, the trust department continued to function without interruption under the supervision of the state banking department. The announcement was made recently by Fletcher G. Crane, bank examiner in charge of the work of liquidation, that his task was nearing completion and that not one beneficiary, creator or other party to a personal trust agreement had lost a penny of income or principal through the bank's suspension. This is an effective answer to the report, widely circulated after the Bank of United States closed, that its trust assets were endangered.

Pock-Marked

THE United States is going to find it more and more difficult to compete with an increasingly nationalistic world under a form of government which lacks the power to reach quick decisions, the machinery for action and the courage to be aggressively selfish.

Perhaps Congress should be elected by economic classes and professions, instead of by geographical divisions. Perhaps the population of Congress should be reduced by three-fourths at least. In any case it is practically impossible for an honest man to serve in Congress under present conditions without being torn constantly between patriotism and expediency. The net result is a sort of chronic legislative disorder which leaves the country pock-marked after each attack.

It may be that the only intelligent type of elective representation that fits properly into our economic system is one in which a congressman would speak for a particular economic group such as farmers, factory workers, city dwellers, rural population, office workers, students, etc.

Our Congress now has authority without commensurate responsibility and the President has much responsibility without authority. A business concern organized on a similar basis would have failed long ago. America is a long, long way from failure but certainly has yielded ground since the end of the war. We prefer democracy but can we afford so much of it in a period like the present when other countries are dispensing with it? The question is worth thinking about.

Much recent criticism of Congress has been reckless and unreasonable. The mistakes of Congress did not cause the depression and probably contributed only in a minor way to prolonging it. However, it is no defense of Congress to say that it might have done worse. The function of government is to render positive, constructive leadership and Congress has not performed this function very often in recent years. Indeed, we have reached a state of mind where we are grateful when nothing damaging happens at the Capitol. Even when something good has come out of Congress it can usually be shown that action was taken under the lash of party or executive discipline.

QUALITY

PERHAPS it is true that the average Congressman today is something less than he was several decades ago, although many of the giants who resided at Washington in the old days were regarded as windbags by their contemporaries. But even if Congress has a tendency to lose quality with the years, it is hardly a cause for wonder. With the increase in population, the assembling of vast colonies of foreigners and naturalized citizens in congested cities and the migration of negroes from the South to the North, the work of courting political favor with the public today often requires a type of genius that is anything but statesmanlike.

Still, the quality of Congress is certainly well above the average of citizens. In fact there are men in the Senate and House of Representatives who, in ability, character and variety of achievements, rank with the best that America has produced. But only seldom does the country hear their voices above the sound of incoherent nonsense. Everyone knows who they are and is grateful to them for their devotion to democratic government in the face of hypocritical vote-chasing.

Fear alone controls the actions of many Congressmen and Senators—the fear of losing their jobs. Here again, it must be said that they should not be denounced on this score. Most of them have families and, regardless of the professions which they followed before entering politics, the money they receive for working at the Capitol represents their only present means of livelihood. Many old-timers have forgotten how to work at anything but the highly specialized job of persuading citizens to put crosses at certain places on ballots.

Banditry

THIS is no time for banks to neglect their defenses against banditry. A bank which tries to get along today without adequate protection and spurns the aid of modern, scientific devices designed to frustrate acts of violence, is asking for trouble. Depression-bred criminals are (CONTINUED ON PAGE 71)

Agriculture does not expect a return to the high price levels that existed during the World War. If only prices would return to a level half way between those which existed during the World War and those prevailing at the present time, the farmer would be happily situated, providing the price levels of all other commodities should be similarly adjusted to changed conditions.

Farming Is Prepared for Business Revival

Although More Equitable Taxes and Price Structure Are Needed

By CLYDE D. HARRIS

FARMERS have gone a long way in making the necessary adjustments to meet present conditions. Many have learned to make crops without borrowing money. Crops are produced at the very minimum of expense. From necessity, perhaps, a cheaper crop was never made than will be produced this year. And while prices are extremely low, more farmers than generally supposed are "breaking even."

In brief, agriculture already has taken its "cut." When industry and commerce have gone as far towards making adjustments to changed conditions as agriculture, we shall again see better times. Since agriculture has gone further than any other industry in making its adjustments, we believe it should be the first to see the return of prosperity. If agriculture does lead the way out of this depression, it will not be without precedent.

Of course, no one will deny that agriculture is in a bad way. At present price levels, the majority of farmers cannot make enough to pay taxes, not to speak of interest on indebtedness. If present price levels continue, it will mean ruin for most farmers. The present plight of certain joint stock land banks, drainage districts and other institutions depending altogether on the farm situation is evidence of this fact. The farmer who owes on his land is up against it under present conditions.

But many farmers find reason for optimism in the very fact that prices are so low. Farmers generally feel that conditions are so bad that they can get no worse. They say that prices can go but one way and that is upward. And there is merit in their way of reasoning; for when the price of a commodity reaches a level below the cost of producing it, the production of that particular commodity will diminish. Smart livestock farmers are buying a year's supply of corn at 20 to 25 cents a bushel instead of producing a new crop. They are permitting their fields to run in pasture and filling their cribs because they know they cannot produce feed at the present prices.

The smaller canning factories throughout the country are going to operate this year only in a very limited way. This will tend to lessen the amount of food canned this year. Given time the old law of supply and demand will adjust prices and bring about that which legislation has been powerless to adjust.

Every country banker knows a considerable number of farmers in his community who are making a little money even under present conditions. In this class is the farmer who buys his neighbor's livestock at distress prices and his neighbor's corn and hay for less than it cost to produce it. These farmers have learned that there is profit even in selling hogs at four cents if corn costs only 20 cents a bushel; or in selling eggs at ten cents a dozen at present market prices of feed; or in producing milk at ten cents a quart when hay is selling at $10 a ton. In communities where diversified farming is carried on, a larger number of farmers can be found who are "breaking even" than in communities practicing strictly one-crop farming.

But farmers have gone about as far as they can in adjusting themselves to present conditions so far as reducing operating costs is concerned. Any additional help must come from some other source. The two main sources of relief lie in a reduction in taxes and in reducing the inequality that exists between the cost of what the farmer sells and what he has to buy.

Perhaps high taxes have more to do with the inability of the farmer to make earnings than anything else. The taxes on farm property are more than two and one-half times what they were in 1914. The average tax from 1922-27 was 23.3 per cent of the net income, or close to one-fourth of the net return. Under present conditions perhaps considerably more than one-half of net return is required to pay taxes. In order to meet these high taxes, the farmer has (CONTINUED ON PAGE 48)

•

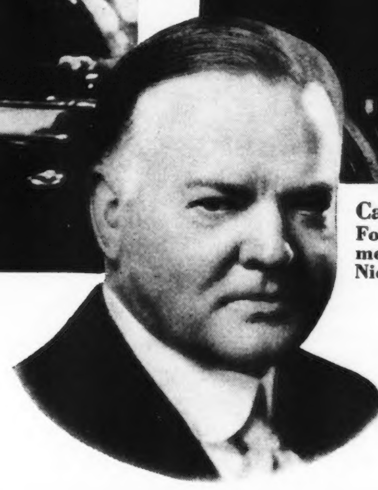
Clyde D. Harris, author of this back-to-the-farm article, is a banker who has lived and worked close to the good earth. Only on rare occasions is he a pessimist. He is president of the First National Bank of Cape Girardeau, Missouri.

Every Four Years

Theodore Roosevelt—
Panama Canal, Imperialism, Trust Busting, Conservation of Resources, Fleet's World Tour

William Howard Taft—
Payne-Aldrich Tariff, Arbitration Treaties, Trade Reciprocity with Canada

Calvin Coolidge—
Foreign Trade, Oil, Disarmament, Prosperity, War Debts, Nicaragua



Woodrow Wilson—
Federal Reserve System, Mexico, Haiti, Peace, War and the League of Nations, Lodge

Warren G. Harding—
Normalcy, Naval Limitation, Ohio, the Little Green House

Herbert Hoover—
Stock Market, Tariff, Deflation, Prohibition, Congress, Special Commissions, Reconstruction

?

. . . balances budget, at least on paper . . . the foundation for fiscal reconstruction . . . emergency measure . . . paying honest bills with honest money . . . "getting the most feathers with the least squawk" . . . a far cry from socialistic "soak the rich" measures . . . "muscling in" on the gasoline tax . . . banking feels force of the new law . . . by no means settles fiscal issues . . . *now*, earning and paying . . . *next*, will expenses come down to taxes? . . .

A Close-Up Picture of the New Tax Load

The Country Must Now Face the Fiscal Music

By MORRIS EDWARDS

MADE law just one day less than six months after its tempestuous career was formally launched, the country's most-discussed revenue legislation in a generation now is an accomplished fact. It has ceased to be a source of fear and uncertainty. Instead it has become the foundation upon which fiscal reconstruction can be started. It is the axis around which tax talk will revolve for months to come.

The stirring events incident to its stormy course through Congress already are receding into the background. The hopes which it encouraged and the fears which it aroused have been either definitely confirmed or set at rest. The political gladiators, whose tilts at arms so sorely tried the country's patience, have moved serenely on to new battlegrounds and fresh combats of partisan strife. The hurricane has passed. The ship of state sails on—just about as everybody expected it would.

What kind of new tax law do we have? Just about what might have been expected. Sharply boosted income taxes, not only in the upper brackets of the surtaxes, but also in the normal rates which convey to millions of middle-class Americans the fact that bountiful public expenditures sooner or later must be paid in cash on the nail. Higher rates and less liberal administrative provisions under the corporate income tax. Less advantageous treatment of capital losses. A long list of excise taxes at stiff rates, most of them intended plainly for revenue purposes, but at least a few—notably the import duties which, after all, are only protective tariffs—intended to catch votes next November. Quite an array of miscellaneous taxes—on bank checks, admissions, telephone and telegraph messages, oil pipe lines, etc.—pressed into service as revenue producers in spite of the administrative experimentation which they will require. Higher estate taxes, accompanied by a gift tax to prevent evasion. Increased postal rates. Heavier stamp taxes on stock and bond issues, stock transfers, produce sales for future delivery, conveyances, etc. And at least two departures from previous policies: a penny-a-gallon gasoline tax that invades one more field hitherto occupied exclusively by the states, and a 3 per cent tax on electrical energy that started as an attempt to bedevil the fabled "power trust" with the tax whip but ended as just another levy on the ultimate consumer.

Mr. Edwards has contributed several articles in recent issues on taxation and other subjects. He lives in Washington and is in the finance department of the United States Chamber of Commerce

Is this a good or bad tax law? Just so-so. Not the paragon of equity which tax theorists from time immemorial have longed for, but certainly not as prejudiced against business nor as radical in its social effects as it conceivably might have been under existing economic conditions. It exemplifies superbly Colbert's sage axiom of "getting the most feathers with the least squawk." It makes no pretense of hiding the rough edges and objectionable, but not disastrous, features which result from intense pulling and hauling by affected interests and from the political stratagems of a presidential year. It is a law frankly designed to raise a great deal of money quickly, not to provide a practical setting for experiments in political science.

The new tax law also creates a new set of problems for trust companies and trust officers already harassed by shrunken capital values, diminished income yields, and uncertain investment situations

Its virtues, and they cannot be elbowed from the picture by even the most tenable criticisms, are large and important. The law should put an end to foreign suspicions and faint-hearted domestic fears that America did not have the courage to face the fiscal music. Thus, it removes one very considerable threat which for a time jeopardized the maintenance of the gold standard.

It balances the budget, at least on paper. Whether it will do so in fact remains to be seen. The important thing, however, is that this law dispels any doubt of intent to achieve that objective or of willingness to take extraordinary measures to that end. The yield of any business tax is uncertain. Reliance necessarily must be placed on estimates rather than on conclusive fiscal experience. Thus, despite the new taxes and the considerable economies already voted, it is not impossible that Congress next December again will face a Treasury deficit requiring corrective efforts. But the question then will be one of means and not of fundamental policy. The country, by accepting the recent law, (CONTINUED ON PAGE 50)

How the Taxes Affect Trust Companies

What Trust Men Should Know About the Tax Law

By CLARENCE M. JUSTICE

The Revenue Act of 1932 provides important changes in the Federal tax laws of direct interest to trust companies and banks operating trust departments. The Committee on Taxation of the Trust Division presents here a practical summary of these changes for the information and convenience of trust men throughout the country.

The author, Clarence M. Justice, is chairman of the Committee on Taxation, Trust Division, American Bankers Association, and vice-president of the Detroit Trust Company, Detroit, Michigan.

EVERY one is more or less familiar with the increased individual income tax rates—4 per cent and 8 per cent for normal tax and from 1 per cent to 55 per cent for surtax. The surtax rates apply to net incomes in excess of $6,000.

The earned income credit has been eliminated in the new law.

With regard to losses, Section 23 has been changed so that there is a limitation in the case of individuals on losses from sales or exchanges of stocks and bonds which are not capital assets (owned for two years or less), as those losses will be allowed only to the extent of gains from such sales or exchanges. Any excess of losses over gains in a taxable year on stocks and bonds which are not capital assets would be allowed as a deduction in the succeeding taxable year to the extent of any excess of gains over losses in the succeeding year on stocks and bonds.

The personal exemption is changed from $1,500 to $1,000 for a single person or an estate or trust and from $3,500 to $2,500 for a married person, but where the status of the taxpayer in so far as it affects the personal exemption or credit for dependents changes during the taxable year, the personal exemption and credit shall be apportioned under the rules and regulations of the Treasury Department. This will affect the status of a taxpayer dying during the year and is a departure from the former practice.

The provision regarding gain or loss from installment obligations has also been changed in its application to the transmission at death of installment obligations and is fully covered by Section 44.

With regard to those provisions covering more specifically estates and trusts, Sections 166 and 167 have been changed so as to prevent the avoidance of tax by creating a trust where a person with a nominal beneficial interest would have to consent in order to have the trust revoked. The income of a trust under the new Act would be included in the income of the grantor where he, either alone or in conjunction with any person not having a substantial adverse interest in the disposition of the corpus of the trust or the income therefrom, might revest in himself title to the corpus of the trust. Again, where the income of a trust is, or in the discretion of the grantor or of any person not having a substantial adverse interest in the disposition of the income, may be held or accumulated for future distribution to the grantor, then the income of the trust is included in the grantor's income. The discretion of the grantor means the discretion of the grantor, either alone or in conjunction with any person not having a substantial adverse interest in the disposition of the income. Here it might be claimed that an irrevocable trust was created, as the grantor would have no power to revest in himself title to the trust without the consent of a beneficiary of the trust or some person other than the grantor, and yet the grantor would be charged with the income.

In order to protect those creating such trusts, it is provided by the gift tax statute which has been re-enacted under the 1932 Act, having been formerly repealed as enacted under the 1924 Act, that such gift tax shall not apply to a transfer of property in trust where the power to revest in the donor title to such property is vested in the donor, either alone or in conjunction with any person not having a substantial adverse interest in the disposition of such property or the income therefrom, but the relinquishment or termination of such power shall be considered to be a transfer by the donor by gift of the property subject to such power, and any payment of the income therefrom to a beneficiary other than the donor shall be considered to be a transfer by the donor of such income by gift.

The gift tax covers all gifts made after the enactment of the Act, whether such gift is made by transfer in trust or otherwise and whether the gift is direct or indirect, with the exception of gifts to the extent of $5,000 paid to any one person during the calendar year. Such gifts are not to be included in computing net gifts according to Section 504 of the new Revenue Act.

Under the new Act gifts are cumulative, which is a distinct departure from the imposition of the tax under the 1924 Act. Under the 1924 Act it will be remembered that in computing the gift tax the total net gifts made during any year were taken and the tax computed on the net (CONTINUED ON PAGE 56)

WHEN NEW TAXES BECOME EFFECTIVE

Income Tax

Effective as of January 1, 1932, applicable to the year 1932.

Additional Estate Tax

Applicable to every decedent dying after 5 P.M. June 6, 1932.

Gift Tax

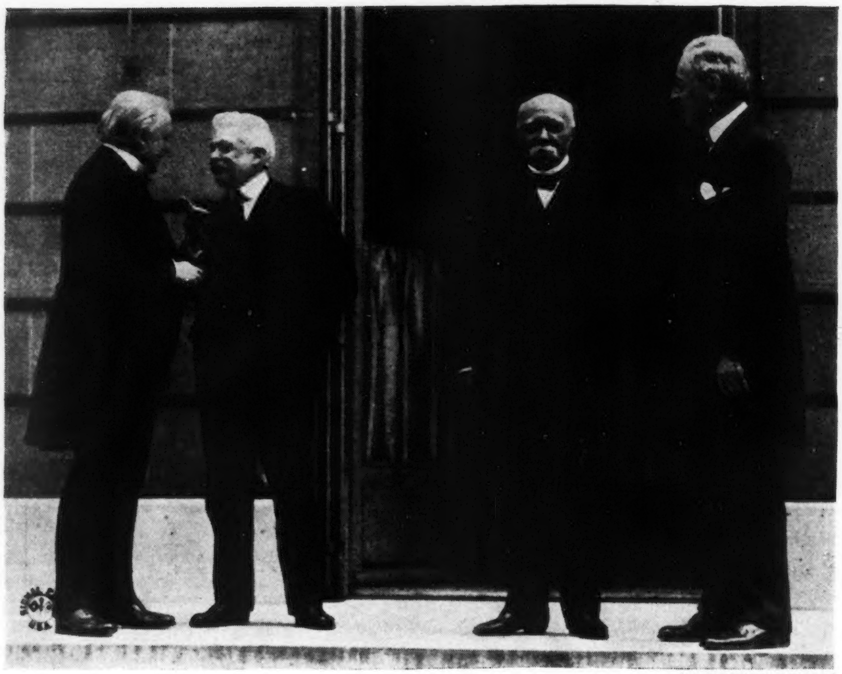
Effective June 7, 1932.

Manufacturers' Excise and Miscellaneous Taxes

Effective as of June 21, 1932. The tax on use of boats is effective on or after July 1, 1932.

Postal Rates

Effective July 6, 1932.



A famous picture of the "Big Four" at the time that the Treaty of Versailles was being negotiated—Lloyd George, Orlando, Clemenceau, Wilson

There Are Certain Reasons Why It Might Be Helpful to Raise the Question of Accepting Land in Lieu of Other Payments on the Debts.

If Europe Wanted to Pay

By WILLIAM R. KUHNS

EVER since the war there has been much talk about capacity to pay—capacity of Germany to pay reparations and the capacity of Europe to pay war debts. Considerable time and effort have been given to the task of analyzing the financial and industrial positions of debtor countries, in order to find the true measure of capacity to pay.

In the light of what has happened in the last decade it is fairly evident that this was a waste of time. The thing which should have been investigated was the will to pay, because there is no capacity whatever where a debtor feels no sense of obligation. Public opinion in Europe, with amazing indifference to the facts, has never admitted the validity of the war debts. The average European, no matter on which side he happened to be during the fighting, has reached a point in his thinking where he no longer sees anything dishonest in a wholesale scheme of repudiation. He perceives no violation of ordinary business morality in the fact that Europe proposes to take more than $10,000,000,000 of American wealth (without which the military machine would have collapsed) to finance a war, in the causes of which the United States had no concern and in the benefits of which she had no share.

If there exists any genuine desire on the part of the former allied powers to pay their debts to America, they are overlooking a method which seems to have possibilities. Occasionally, ever since the signing of the Treaty at Versailles, someone in Congress, or in a newspaper editorial remembers that more than a million square miles of real estate changed hands as a result of the war, and the suggestion is cautiously advanced that a solution might be found for the debt question by turning over some of this rich war-prize land to the United States for development. It happens that the mineral and agricultural commodities which can best be produced in the former German colonies, are items which the United States is obliged to import, and over the production of which the United States now has little or no control. Moreover, if France and England prefer to keep control of the land won by the war, each of those nations has possessions of great productive value in the West Indies or Central America—land which by every consideration of geography and naval strategy belongs under the jurisdiction of the Federal Government at Washington.

But whenever the suggestion has been made publicly that some way out of the debt tangle might be found by a transfer of land, European opinion has been deeply offended. The idea has seemed to touch where it hurt and one is led to believe that the last thing Europe wants to know is a way to pay the war debts. It should also be borne in mind that this keep-all-and-pay-nothing attitude toward the war debts is not confined to the former allies, but is shared by the Germans who have convinced themselves that the first step toward a cancellation of reparations is a refusal on the part of the victors to pay the United States.

Now, it is probably true that the people of the United States have no deep urge to acquire overseas possessions and to undertake their economic development, but the average European does not know that fact. He assumes that Americans are like himself and probably is puzzled greatly by the fact

that the matter of ownership of the Cameroon, Tanganyika and other areas, has not intruded more persistently into discussions of the debt question.

But regardless of whether or not the United States wants to extend its colonial empire (and our record in the Philippines indicates that we have no congenital knack of handling the white man's burden) there are interesting reasons why it might be helpful to raise the question of accepting land in lieu of other payment on the debts.

1. America could invest her surplus capital henceforth under the American flag where there is a better chance of collecting.

2. A default or cancellation, whichever it is called, would constitute an utter denial of every principle upon which international financial relationships are founded, and injure for generations the expansion of inter-continental trade.

3. The debts as they stand are a constant cause of uncertainty and an obstacle to the normal movements of international trade. American public opinion is adamant in its belief that these debts are not a matter to be dismissed by the cynical wave of a European hand. A proposal to substitute land for money payments might afford a means whereby both debtor and creditor could get together.

4. If Europe would offer land instead of money the gesture would be valuable in restoring America's respect for Europe's integrity even if the offer were declined. The mere offer would constitute an indication of a disposition to pay—a phenomenon which America has not witnessed once since the war.

5. Almost any step would be better than allowing a great international swindle to be written into history.

GALLOWAY

Palace of the Sultan and the administration building at Fumban in Cameroon, formerly the German territory of Kamerun. It is now governed by France

Under the terms of the Treaty of Versailles, signed June 25, 1919 and effective January 10, 1920, Germany renounced "in favor of the Principal Allied and Associated Powers all her rights and titles over her overseas possessions". She also renounced all claims and special rights which had made her an important factor in the administration of China, Siam, Liberia, Morocco, Egypt, Turkey and Bulgaria.

Article 22 of the League covenant provided for the disposal of these valuable territories in the following manner:

"To those colonies and territories which as a consequence of the late war have ceased to be under the sovereignty of the states which formerly governed them, and which are inhabited by peoples not yet able to stand by themselves under the strenuous conditions of the modern world, there should be applied the principle that the well being and development of such peoples form a sacred trust that civilization and that securities for the performance of this trust should be embodied in this covenant."

It also stated that "certain communities formerly belonging to the Turkish Empire" should be recognized as deserving of an independent existence, except that a mandatory power would render administrative advice and assistance.

In the provisions granting to the former allied powers mandates to rule the former German colonies and "advise" the former Turkish provinces, is the one great, tangible result of the war. During the past century in Europe there have been approximately 40 major treaties and agreements as a result of wars and in every case the chief end and consequence of hostilities has been a change in the world's map—in other words a shift in land from the loser to the winner. Monetary reparations and payments in kind have always been very minor items in the permanent economic harvest of wars, and of very doubtful value. Frenchmen did not blame Bismarck so much for extracting a heavy indemnity from their fathers, as for the fact that he seized Alsace and Lorraine.

GALLOWAY

Native city bazaars at Dar-Es-Salaam, Tanganyika Territory, Africa. Formerly German East Africa and now under British administration

Land has been the objective of almost all wars in history and even where some other objective existed, it was always by a shift of proprietorship in part of the earth's surface that the victor finally signalized his success.

The only real difference between the last war, in respect to permanent land changes, and all previous wars, was that the word "mandate" was used in most instances instead of "cede." The results have been the same in the case of former German colonies, as though the land had been ceded; moreover in the former Turkish provinces it has often been hard to distinguish "advice," from sovereignty, under a mandatory power.

There were three types of mandates, called respectively A, B, and C. "A" mandates applied to the former communities of the Turkish Empire (Mesopotamia, Syria and Lebanon, Palestine). The "B" mandates comprised the Cameroon, Togoland and former German East Africa and such areas which were populous but not capable of self-government. The "C" mandates included the sparsely populated German Southwest Africa and the former German islands in the Pacific. The only difference between the three types was the degree of theoretical authority granted to the mandatory power. Theoretically the mandatory powers, of course, govern the various territories on behalf of the League.

A SUBSTANTIAL PAYMENT

IT IS somewhat surprising that more consideration has not been given to the potentialities of this vast repartitioned territory as a source of payment for the war debts. The table which accompanies this article shows in detail the areas taken from the German Empire at the close of the war, including approximately 28,000 square miles of European territory. Here is a reparation payment of vast dimensions—probably the only real payment of reparations that Germany will make, economically speaking, and America's share was nothing.

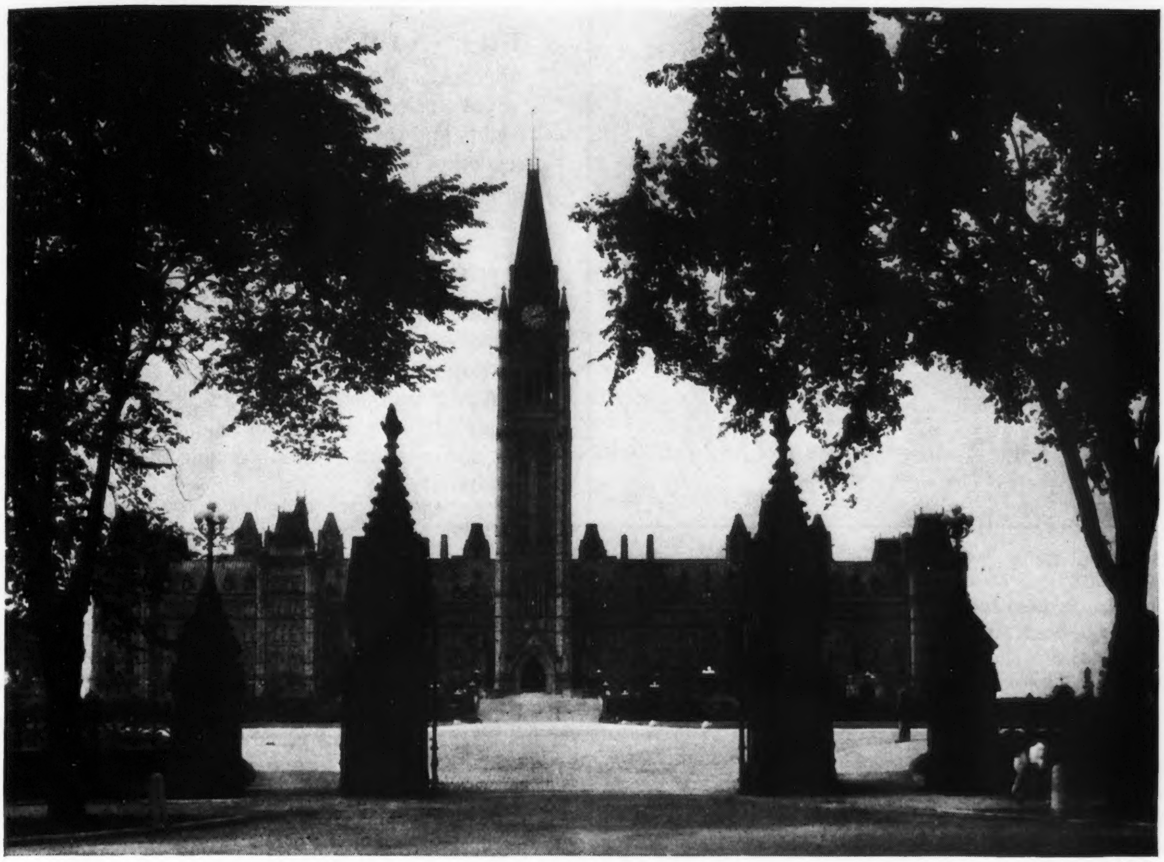
Disregarding entirely all questions of history and war guilt, the fact remains that the war resulted in turning over to the former allies, not only the entire colonial empire of Germany but also one-eighth of her European area, containing 12 to 15 per cent of her agricultural production, 10 per cent of manufactures and 74 per cent of iron ore production. The rich provinces of Alsace and Lorraine were returned to France. The exclusive rights of exploitation of the coal (CONTINUED ON PAGE 67)

Territories Which Passed from Germany's Control After the War

EUROPEAN TERRITORY	CEDED TO	EXTENT AND POPULATION	ECONOMIC STATUS
Alsace-Lorraine	France	5,607 sq. mls. 1,874,014 pop.	World's richest potash fields, 300,000,000 tons potential production. Unlimited iron and coal reserves.
Eastern and Upper Silesia (Greater part)	Annexed to Poland after plebiscite	17,816 sq. mls. 3,854,000 pop.	53 of 67 valuable coal mines yielding 31,000,000 tons annually and 70 per cent of zinc and lead output.
Do. (Small part)	Czechoslovakia	122 sq. mls. 48,000 pop.	
Schleswig (Part)	Denmark by plebiscite	1,542 sq. mls. 166,896 pop.	
Danzig	Free City	739 sq. mls. 331,000 pop.	Gave Poland an outlet to the sea.
Memel	Allies	1,026 sq. mls. 141,716 pop.	
Eupen and Malmady	Belgium	400 sq. mls. 61,000 pop.	Strategic rather than economic benefit.
Saar Valley	Under French exploitation 15 years, then plebiscite	744 sq. mls. 714,000 pop.	Fair volume of coal production.
	Totals	27,996 sq. mls. 7,190,626 pop.	

AFRICAN TERRITORY	MANDATED TO	EXTENT AND POPULATION	ECONOMIC STATUS
German East Africa (Tanganyika)	Britain	365,000 sq. mls. 4,000,000 pop.	
Southwest Africa	Britain	325,000 sq. mls. 250,000 pop.	Prospect for colonization like South African colonization by Britain.
Cameroon (Partition)	France England	166,489 sq. mls. 700,000 pop. 31,000 sq. mls. 3,000,000 pop.	Good sources of mahogany, rubber, palm oil, cacao, tobacco and cotton.
Togoland	England and France by joint mandate	21,000 sq. mls. 1,000,000 pop.	
Ruanda and Urandi (East Africa)	Belgium	21,200 sq. mls. 3,000,000 pop.	The most thickly settled section of German East Africa and excellent cattle country.
Kenya (East Africa)	Italy	254,000 sq. mls. 900,000 pop.	Undeveloped.
	Total territory	1,183,689 sq. mls.	

PACIFIC TERRITORY	MANDATED TO	ECONOMIC POSITION
Samoa	New Zealand	Strategic location.
New Guinea (Part)	Australia	
Bismarck Islands Solomon Islands	Australia	Strategically located. Total population 700,000.
Marshall Islands Carolines Mariannes Pelew	Japan	1,000 square miles. 70,000 population. Japan received under mandate all of the German Pacific territory north of the equator.
Nauru	British Empire	



GALLOWAY

The attractive setting of the Dominion's Parliament Building at Ottawa

What Canada Has in View

By S. H. LOGAN

The record of the past two years, according to Mr. Logan who is general manager of the Canadian Bank of Commerce, reveals the Dominion's underlying economic strength as the Imperial Conference meets at Ottawa this month

AS a Dominion in the British Commonwealth of Nations, Canada will this year be called upon to participate in the most important Imperial Conference yet held, and the extent of her interest in imperial affairs has been gracefully acknowledged by the choice of Ottawa as a meeting place. An appraisal of the economic status upon which we as a nation enter the forthcoming discussions is therefore of the liveliest interest.

Canada entered 1932 determined to face squarely its accumulated difficulties. Most of these are inextricably involved in the march of world events, and only when economic rather than political factors are allowed to govern the counsels of those nations with which we would normally trade on a large scale and when business is freed from the artificial restraints now placed upon it, can we hope for any sustained improvement in our domestic conditions.

Certain favourable signs, however, give rise to renewed confidence in Canada's ability to weather the storm. Much improved moisture conditions encourage the belief that larger crops will be harvested in the West this year, and, while the period of general rains recently experienced does not definitely assure a good crop, it renders the outlook at this date the best since 1928. Improvement in the market for agricultural produce is dependent upon many factors, but the export movement of Canadian wheat during May was the heaviest since the beginning of the present wheat year and generally speaking the world wheat situation is fundamentally stronger than a year ago, for the world supply is now somewhat smaller and the demand slightly greater.

In view of the extent to which Canada is dependent upon foreign political and economic conditions and the fact that our industrial growth in the last period of prosperity was relatively the greatest in the world, it might have been expected that Canada would have suffered a sharper reaction than that experienced elsewhere. Canadian industrial production, however, has not fallen below the world level, and during the first quarter of the present year Canada was one of the two major industrial countries to show an improvement. Unemployment, too, has been relatively less in this country than elsewhere. But, as I have pointed out on more than one occasion, it is in the (CONTINUED ON PAGE 58)

Salt Lake City's Measured Service Charges Increased Profits $112,000

THE AIMS:

Allocation of equitable uniform charges based on actual services rendered, elimination of nuisance accounts and the abuse of the checking privilege, the reduction of "insufficient funds" transactions, and the education of customers in the cost problems of banking.

THE RESULTS:

An annual increase in net profits for Salt Lake City banks of approximately $112,000, 50 per cent reduction in number of small checks, increased customers' balances, large reductions of "insufficient funds" items, greater public confidence in banking, and increased cooperation among the banks of the community.

THE SCHEDULE OF CHARGES

Average Balance Less Than $200:

BASE CHARGE: one dollar for one or more checks, three cents extra for each check in excess of four, one additional free check for each $10 average balance above $100, two cents per item charge on out of town checks deposited.

Average Balance Between $200 and $500:

NO BASE CHARGE: 14 free checks, with one additional for each $10 average balance over $200, three cents charge for each additional check, two cents per item charge on all out of town checks deposited.

Average Balance in Excess of $500:

Monthly analysis to show loanable balance in excess of 15 per cent legal reserve and float. Charges: two cents per check paid and deposited, 15 cents per return item, 25 cents per outgoing collection, 75 cents per $1,000 average loanable balance for administration, 30 cents per $1,000 currency handled. Credits: five per cent per annum on loanable balances. Public service depositors who pick up checks daily and assume responsibility for signatures, endorsements, stop payments: per-item charge reduced to one cent.

Items Cashed for Non-Customers:

OUT OF TOWN CHECKS: 10 cents up to $25, 25 cents between $25 and $50, 35 cents between $50 and $100, over $100, minimum 50 cents.

Service Charges on Savings Accounts:

50 cents monthly on four or more monthly withdrawals when maintained balance is under $100, 50 cents per account closed within 60 days of opening, 50 cents for replaced pass book, no interest on accounts under $5.

Service Charge on Small Loans:

$1 on new or renewed notes of $200 or less, plus regular interest.

Penalty Rate on Return Checks:

50 cents per check returned for insufficient funds.

Charge on Exchange Sold:

$1 per $1,000 on all drafts outside Utah, Idaho and Nevada, 10 cents minimum on any draft or cashier's check. Rates optional for correspondent banks, association members, sugar companies, United States Government and its officials, corporations mainly located outside Utah, state, county, municipal and boards of education.

Escrow Charges:

$5 in advance up to $1,000, $10 in advance over $1,000.

Safe Keeping Charges:

$1 per $1,000 face value with $5 minimum on mortgages, bonds, notes, etc., 50 cents per $1,000 face value stocks, five cents per share on stocks of no par value, $5 annual minimum, charges optional on securities kept for less than 30 days and waived on securities pledged against public deposits.

Telegraphic Transfer Charges:

Investment bankers and brokers: one-tenth of one per cent to $5,000 with one-twentieth of one per cent on excess plus cost of telegram and charges. For others, one-eighth of one per cent up to $5,000 and one-tenth of one per cent on excess, plus costs, minimum 50 cents.

Charges for Collections Received from Depositors:

COUPONS: United States 10 cents per $100 with minimum five cents per item, others one-tenth of one per cent with minimum 25 cents per item. Bill of lading drafts: 25 cents on first $100 and 10 cents of each additional $100 with minimum 40 cents. Drafts: 25 cents on first $100, 15 cents each additional $100 with minimum 40 cents. Partial payment notes, deeds, contracts, etc.: acceptance fee $1 in advance, collection charge one-tenth of one per cent or cost, partial payment charges 25 cents per payment, bonds one-tenth of one per cent with 25 cents minimum plus costs.

Charges for Collections Received from Non-Depositors:

Collections acceptable only with presentation fee of 50 cents, drafts with B/L or otherwise, 25 cents minimum on unpaid items, collection charge one-tenth of one per cent with 25 cents minimum or cost, drafts on brokers or investment bankers one-tenth of one per cent up to $5,000 and one-twentieth of one per cent on excess, deeds, notes, papers, etc. 25 cents minimum on unpaid items, collection charges one-eighth of one per cent with 25 cents minimum or cost, stock transfers 50 cents minimum or costs, warrants on state, county or city with out of town endorsements one-tenth of one per cent, minimum 25 cents.

Prestige Augmented, Depositors Benefited, Merchants Aided, Community Served

Orval W. Adams, writer of this article, is vice-president of the Utah State National Bank

IN early 1931, Salt Lake City's banks found themselves thoroughly enmeshed in the toils of "Free Service," profit-killing product of the thoughtless days of the 'twenties.

The checking privilege, extended so hopefully to all and sundry as a lure to depositors was being worked so earnestly by hundreds of holders of skimpy balances as to necessitate additions to the payroll to handle accounts which could only be construed as liabilities.

"Insufficient Funds" items, too, were the bane of merchants as well as bankers, 60 to 80 items of this nature a day involving an expense and annoyance to stores of all kinds. And these rubber checks almost invariably were chargeable against the accounts of shoe-string depositors of extraordinary optimism in regard to their balances or chronic anticipators of pay-days.

In a slightly different category, but equally serious as a source of expense without compensating income was another group of accounts all too familiar to every banker—those whose balances appear at first glance to be sufficiently substantial to justify every consideration, but which unfortunately consist largely in sizeable out-of-town collectibles against which checks are too frequently drawn before the drafts are paid.

Knowing the weaknesses of their methods, faced with curtailment of income in every direction, and yet established in the minds of their depositors as fountains of inexhaustible profit by their very generosity with "Free Services," the (nine) banks in the city at last united for vigorous action in putting into effect in their institutions the complete program of measured service charges worked out by the Bank Management Commission of the American Bankers Association, and explained in all their ramifications at the Bank Management Conference held in Salt Lake City.

Details of the plan itself are submitted on the opposite page: its results deserve the immediate, careful and continuous thought of every banker in the United States interested in sound methods and striving to make reasonable profits in his institution.

For inside of 30 days from the inauguration of the plan, the increase in net income from these logical sources was approaching a rate equal to 5 per cent per annum on the capital stock of Salt Lake's banks. The carper, the complainer, opponent of anything new and constructive, all enjoyed their brief say: there was some difficulty with certain active accounts of low net balance, until the records were placed before them: there was an amazing mortality in accounts which had averaged $50 or less and enjoyed checking privilege. But when all the petty annoyances of readjustment were over, the merchant found himself all but entirely free of the rubber-check evil. The utterer of scores of small checks a month became more careful when the expense devolved upon himself instead of his bank. The decrease in number of items brought operating expenses back to normal. Chronic possessors of trifling balances found ways and means of bringing the figure up to a more reasonable sum.

And by no means the least consequence of this betterment in banking practice was the added prestige which came to every institution of the city as a result of this action. "Banks with courage enough to take such a course now," reasoned the depositors, "are good banks with which to do business. They aren't dissipating our money in losing schemes and costly competition, but are working together for us as well as themselves."

Especially praiseworthy about the Salt Lake plan is its complete elimination of guesswork or favoritism in the treatment of depositors. Every depositor, great or small, pays in exact accordance with his use of the facilities supplied by the bank on exactly the same principle that controls the allocation of passenger fares by railroad, with exemptions limited to actual revenue-producing balances.

In this very fact of equitable charges, moderate in amount, but applying without exception to every depositor, lies the most powerful selling argument in introducing the plan to customers of the bank—all pay alike for like services.

The Salt Lake plan has sound application wherever banks are able to co-operate in the working out of their cost and service problems—not only in cities but in counties or even larger units, and offers a logical and constructive solution of one of banking's most immediate problems.

Keep the appended schedule of charges and results prominently before you: discuss this plan and methods for utilizing it with the officers of other banks: bear in mind the fact that it is bringing Salt Lake's banks an actual net profit of 5 per cent on their combined capitalization in addition to other economies in administration not directly credited among its accomplishments.

Better Control By Accrual Accounting

THE opening of another fiscal year provides an excellent point at which to make the bank's budget and control system more efficient and thus to lay the groundwork for greater profit and smoother operation in the future.

Installation of accrual accounting of income and expenses constitutes one of the major steps which may be taken in that direction by banks which do not already use it. Such a system will be found to facilitate the budget very materially. Only through it may the amounts earned and the expenses incurred be definitely determined and allotted to the proper period. And only by its use will the books show the true state of affairs.

KAIDEN-KEYSTONE

Arthur B. Taylor, writer of this article, is Chairman of the Bank Management Commission, American Bankers Association and President, Lorain County Savings and Trust Company, at Elyria, Ohio.

The use of accrual accounting need be neither expensive nor cumbersome. Like any other accounting, it is adaptable to the peculiar needs of any institution. Accruals may be made weekly or monthly, as is usually the case in the smaller banks and banking systems, or daily, as is done by the larger ones. Likewise accruals may be made in any detail or in little detail.

Accrual accounting is explained comprehensively in Booklet number 10 of the Commercial Bank Management series entitled, "Bank Management by Budget and Accrual," published recently by the Bank Management Commission of the American Bankers Association.

Income under accrual accounting is divided into two parts, that which may be determined with reasonable accuracy, such as interest, and that which it is difficult to predetermine, as special fees and security profits.

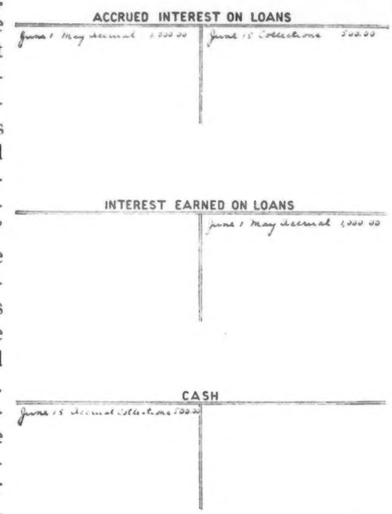
To predetermine interest income, loans are grouped according to the rate they bear, and anticipated income thus becomes easily ascertainable. A ledger account is then opened, termed "Accrued Interest on Loans." To this account is debited the total accrual for the period just ended, and an offset credit is made to "Interest Earned on Loans." This latter shows the income for the period.

As the income is actually collected, it is credited to "Accrued Interest" and of course debited to "Cash." Thus the receivable item "Accrued Interest on Loans" is reduced constantly, and the balance in it at any time is the interest already earned on loans, but to be collected at a later date. The accompanying illustration shows some June entries if accounts are kept on a monthly basis.

Mortgages, being simply another type of loans, are treated in a similar manner. The amount earned in a given period is determined, and the two accounts "Accrued Interest on Mortgages" and "Interest Earned on Mortgages" are used. Interest which is receivable from deposits in another bank may be handled identically.

Securities held as investments may be considered also as loans, of another type. They therefore are susceptible to the same treatment and the same type of accounts is used.

Since income on discounts is received in advance the treatment is different. Discount is credited to "Unearned Discount" as collected. At the end of the month the amount of discount actually earned is determined. This amount is debited to "Unearned Discount" and credited to "Earnings." The balance in the "Unearned Discount" account is of course the amount collected but not yet earned.



Sample entries in accrual accounts illustrate the simplicity of a system imperative in good bank management.

Most other income items may be accrued in a manner similar either to the loan or discount method according to their character. Among these of course are such items as safe deposit box rentals, real estate rentals, service and analysis charges, etc.

Expense accruals are handled in a manner not unlike income. Interest cost may be ascertained without much difficulty, and the same is true of salaries, taxes, reserves, dividends, etc. These are debited to the appropriate expense account and a corresponding credit set up in the accrual account. As paid out, the accrual account is debited, and cash, of course, is credited. The total remaining in the accrual accounts of course represents the expenses that have been incurred but are as yet unpaid.

In the case of prepaid expenses, the handling is similar, but opposite to that in the case of discount income. "Prepaid Expenses" are debited as payment is made. At the end of the month the amount of the expense actually chargeable to that month is determined, and credited to "Prepaid Expenses." At the same time the offsetting debit appears under "Expenses." The total remaining in the "Prepaid Expenses" is of course those paid but not yet used.

The more income and expense items to which accrual system may be applied, the more accurate periodical statements of earnings and condition will be.

The fires of originality, initiative and enterprise are kindled and kept burning best by prompt recognition and generous reward of unusual merit

Merit-Reward Trusts

A Service for Which Trust Companies Are Fitted

By GILBERT T. STEPHENSON

GERARD SWOPE of the General Electric Company, in outlining the Swope Plan for the stabilization of industry, stated as one of the underlying principles that, if organized industry is to undertake this plan, "every effort should be made to preserve the benefits of individual originality, initiative, and enterprise."

Whether or not one approves the Swope Plan in general or in detail, every one will subscribe heartily to this underlying principle.

Yet the problem of all organized effort—whether in industry, finance or government—is to achieve organization, order, standardization, and efficiency, without sacrificing originality, initiative, and enterprise.

In the business world the fires of originality, initiative, and enterprise are kindled and kept burning best by the prompt recognition and generous reward of unusual merit. Such recognition and reward may take the form of advance in position or increase in compensation or both. But the reward of merit in either of these ways may be inadequate, because not every one who deserves a reward would be really benefited by a promotion in office or position and, as stated in the introduction to this series, no flat wage scale or fixed and inflexible basis of compensation can ever do full justice to workers who render extraordinary services or contribute in uncommon ways to the progress or profits of the business.

In recognition of the need of some special reward for unusual accomplishment, business has devised many different merit-reward plans. These should not be confused with plans, somewhat similar, for encouraging thrift and providing for profit-sharing among the employees. The plans we are considering now relate only to rewards for specially meritorious services to the company. Thrift and profit-sharing trusts will be discussed in a later article.

Mr. Stephenson, who is vice president of the Equitable Trust Company of Wilmington, Delaware, is presenting in this series six different ways in which trust companies can be useful to industry. He has already covered employment stabilization trusts and sick benefit trusts in previous articles. Next month he will discuss thrift and profit-sharing trusts.

One nationally known industrial corporation, for example, since 1905 has had an elaborately detailed bonus plan, as it is called, for the benefit of those who have contributed in an unusual degree to the success of the company by their invention, ability, industry, and loyalty. While the awards may be granted for conspicuous service of any nature, the following services are enumerated specially: An invention or improvement which results in a profit or saving, or in a reduction of risk of personal injury or damage to the company's property; unusually ingenious solution of a business or technical problem; perseverance and persistency of a character that results in demonstrating a proposition (in some instances against either internal or external opposition) that results in an important saving or benefit to the company; and an accomplishment by an employee of a character far beyond what might have been expected of one occupying his position. Then there is another class of awards for those who have contributed most in a general way to the company's success by their ability, efficiency, and loyalty.

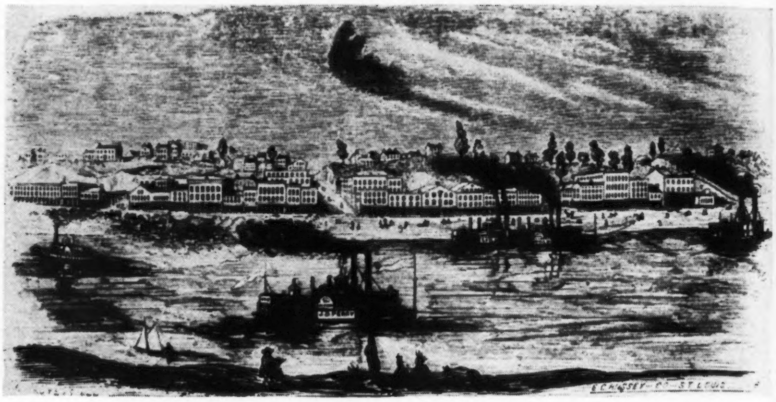
Recommendations for the awards are made by the president of the company or heads of departments and are passed upon by the executive committee. The management of all details of the plan is committed by the executive committee to a bonus custodian. While the company reserves the right to modify or even to repeal the plan, no modification may operate to annul an award already granted, without the consent of the beneficiary.

The administration of this plan, it is to be seen, is in the hands of the company itself.

In the plan now to be mentioned the element of trusteeship is introduced. A trust institution at the end of each quarter sets aside 10 per cent of the net earnings of the company in excess of the amount required to pay current dividends. This amount is forthwith *irrevocably* trusteed and at once and for all time ceases to be an asset of the company. The fund is held by the trustee either uninvested or invested in readily convertible securities.

The purpose of this, it is stated in the plan, is to "reward especially deserving employees of the company in proportion to the earnings of the company and in ratio (CONTINUED ON PAGE 46)

THERE was the old fur trade, for which in 1821 Chouteau had set up the first trading post in Kansas City at a point then called Westport. This commerce flowed across the prairies and down the rivers from as far as the Rockies.



In 1867—when Kansas City was just a town on the river

BANKS AND CITIES

Kansas City, Missouri

By HERBERT MANCHESTER

There was the Missouri River trade; 729 steamboats tied up at Kansas City in the summer of 1857, bringing over 36,000 tons of merchandise.

There was the western trade over the famous Santa Fe trail, which in 1857 required 9,884 wagons, with two men and six yoke of oxen or five span of mules to a wagon, and carried some 30,000 tons of freight.

There was a lesser trade with Mexico which brought in doubloons and Mexican dollars.

There were stage lines to Fort Scott, Lawrence, Topeka, Leavenworth, Atkinson, and St. Joseph.

There were companies of Free Soilers passing through Kansas City, to make Kansas a free state, and bands of southerners going through to make Kansas a slave state.

There were a dozen railroads chartered, and a few of them survived.

There were five real estate additions to the town in 1856 and 18 in 1857.

No wonder that Coates and Hood in 1856 started a private bank to help finance their real estate operations; and that Northrup and Chick, who were pioneer Indian traders and wholesalers, opened in their second story in 1857 a bank which did a big business in deposits, drafts, paying off pack trains, loans on goods in transit, and exchange of Mexican silver from Santa Fe and old Mexico.

Reports of the rushing business were carried back to St. Louis, and in 1859 a branch of the Mechanics Bank in St. Louis was set up in Kansas City, with Dr. Johnston Lykins as president and Col. E. C. McCarty as cashier.

Later in that year, a branch of the Union Bank of St. Louis entered the city, H. M. Northrup becoming president, while still carrying on his own private bank.

Branding cattle in the days of the long-horns

The crisis of 1857 did not interfere much with the old sources of trade, but it halted railroad building, and there was no further important development in traffic or banking in Kansas City until after the Civil War.

After the conflict, railroad construction began again with a rush. In order to get the Union Pacific to start from Kansas City, S. W. Bouton & Co. in 1864 presented to it the Cameron branch of the Hannibal Railroad, and the Union Pacific began building westward the next year.

The first through line from St. Louis was opened over the Missouri Pacific in 1866.

The city and citizens were always quick to vote aid to railroads, and with the help of bonuses, bonds, and cash, the financing of which was done by the bankers, other railroads were completed to St. Joseph, Leavenworth, Lawrence, and Fort Scott.

The first bridge over the Missouri was built on the Hannibal line in 1869, after strenuous local financing, and gave Kansas City the key route from the Northeast to the Southwest.

Largely because of the prosperous railway outlook, the population of the city jumped from 4,400 in 1860 to three times that number in 1865 and there was a scurry to build. In order to supply a safe place of deposit for the busy citizens and to furnish money for building, the Kansas City Savings Associa-

WIDE-WORLD

And today—as trans-continental air passengers see the business and financial district

When the first banks were established in Kansas City, it was to aid in financing a remarkable aggregation of trade converging upon what was then a little settlement of only 2,000 people in the early days of the railroads

tion was founded in 1865 with a capital of $20,000, the chief promoter being C. J. White, who later became cashier. This afterward developed into the Bank of Commerce, which is still in operation as the Commerce Trust Company.

In 1864 Northrup and Chick sold their bank, which was the oldest in the city, to J. Q. Watkins & Co., and moved to New York, where they handled many Kansas City securities.

The next year the original First National Bank was organized, and besides doing a regular commercial business, aided in financing the new railroads.

A great new industry came in. After the war, with the opening of the prairies and placing of the Indians on reservations, the buffaloes began to be displaced by herds of long-horned cattle, which were driven up and down the open ranges.

In order to avoid shipping live cattle, E. W. Pattison and J. W. L. Slavens built the first beef packing plant in Kansas City in 1868, while Thomas J. Bigger began packing hogs for the Irish and English market. Plankington and Armour put a branch packing plant into Kansas City in 1870, and greatly increased the output there. In 1873, before the crisis reached the industry, half a million head of cattle and hogs were received in the city, and 200,000 head were packed there.

To assist in financing the packing business, A. W. Armour and S. B. Armour in 1876 opened the Armour Brothers Banking Co. This was closely connected with the packing company, and devoted itself particularly to the promotion of that industry. In 1889 it was sold to the Midland National Bank, which was merged with the National Bank of Commerce in 1897.

Another bank formed exclusively to finance the cattle interests, was the Kansas City Stock Yards Bank, organized in 1884. C. F. Morse, president of the Kansas City Stock Yards Co., was president and M. W. St. Clair, cashier. In 1890 it was reorganized and became the Interstate National Bank, which is still in operation in the city.

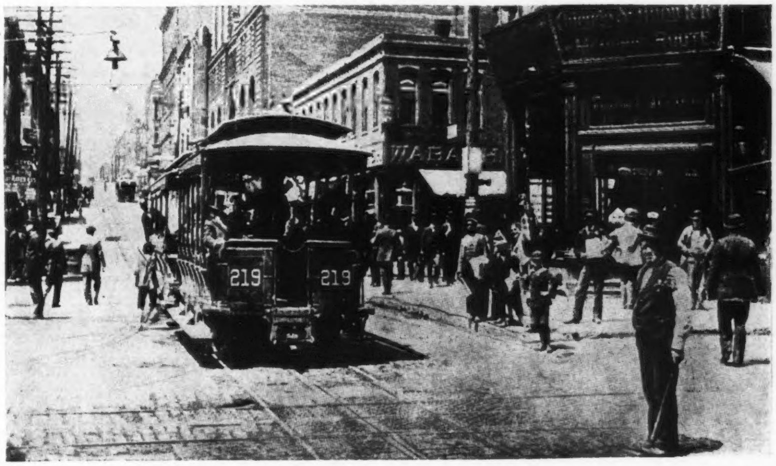
The construction of many railroads opened the prairies to settlers, and the population of Kansas almost tripled in the decade after 1880. Kansas City, which acts as the emporium of Kansas rather than of Missouri, likewise benefited from the influx. It more than doubled in population in the same period and business kept pace.

This developed a need for building loans and everyday commercial banking. So that it could carry out such transactions, which new laws interfered with, the Kansas City Savings Association was reorganized in 1881 by Dr. W. S. Woods, the president, and C. J. White, the cashier, as the Bank of Commerce.

Another bank which was founded especially to handle the commercial business due to the growing city was the new First National Bank. This was organized in 1886 by a private banker, James L. Lombard, who became its first president, with Charles H. V. Lewis as the first cashier.

The livestock and packing business, which had become the greatest industry of the city, was furthered by the formation in 1890 of the Interstate Bank, with a larger capital than the Stock Yards Bank from which it developed.

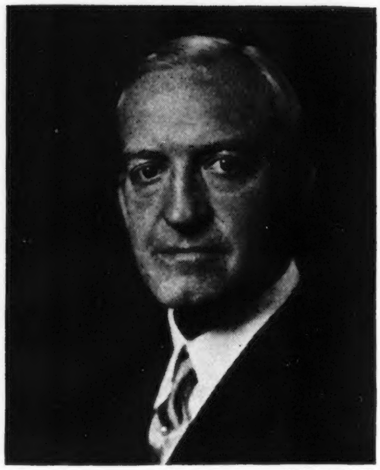
The decade between 1890 and 1900 was marked by the free silver movement, and by the smallest percentage gain in population by both Kansas and Kansas (CONTINUED ON PAGE 52)



How many years back?—Toppers, derbies, Jim Crow cars

New Plan Speeds Liquidation

And Depositors Are Chief Beneficiaries



BLANK & STOLLER

Harvey D. Gibson, President, Manufacturers Trust Company, New York

DURING the past winter the Manufacturers Trust Company of New York played an interesting and unusual part in the financial history of this era. Although banks frequently act as receivers for commercial companies, the plan of one bank acting to liquidate a number of other banks is novel. It is an indication of a change of attitude among bankers—the beginning of a new sense of community responsibility. Of course there are many examples of large institutions coming to the aid of smaller ones but the usual feeling has been that a weak member of the banking fraternity was the responsibility of the state. Now the initiative has been taken by the banks themselves.

SUCCESS INDICATED

LIQUIDATION by Manufacturers Trust Company of a group of community banks is still in process, but the experiment of one bank acting to liquidate others gives indication of proving successful. In the case of 10 banks taken over for liquidation by Manufacturers Trust Company, the remaining assets of two banks after the payment of 100 per cent to all depositors and after full recovery through liquidation already have been returned to their shareholders. In these 10 banks over $31,550,000 of the total amount advanced to the depositors for immediate use of the communities served by them already has been recovered. This money was made available months earlier than would have been possible through the usual process of liquidation. Total recovery of the funds advanced depends solely upon the quality of the assets of the various banks aided. The immediate placing of this large sum in use and its quick recovery are indications of the service rendered to the community and the feasibility of the experiment.

The latter part of 1931 saw an unusual number of banks in New York City close their doors. The tremendous burden thus thrown on the shoulders of the Superintendent of Banks and the Comptroller of Currency necessitated emergency measures. Existing machinery was insufficient to insure prompt liquidation and relief to depositors. Three things had to be accomplished: first, business men whose working capital was frozen had to be supplied with funds and a substantial banking connection which would enable them to continue in business; second, possible distress among depositors had to be relieved; and third, the whole process of liquidation had to be accomplished as expeditiously and as economically as possible.

With these points in mind, an important group of New York banks and bankers under the sponsorship of the Governor of the Federal Reserve Bank of New York, the Chairman of the New York Clearing House Committee, and the State Superintendent of Banks formulated a plan which they believed would be not only practical, but also constructive.

Manufacturers Trust Company was selected as the Agent to acquire the assets of the closed banks. It is believed that this selection was made because of these factors: The city-wide distribution of its branch offices would provide convenient facilities for depositors of the affected institutions and for handling the actual liquidation; the experience they had gained through participating in many mergers; and the speed and efficiency with which they had undertaken the liquidation of the Lebanon National Bank.

> Banks have been performing a new type of community service in New York City by making funds available to depositors much more rapidly than is possible through the usual processes of liquidation. Manufacturers Trust Company was the leader, and its president, Harvey D. Gibson was the man who devised the plan.

OTHERS COOPERATE

IN the case of institutions closed by the supervisory authorities, the firms of J. P. Morgan and Company, Speyer and Company and members of the New York Clearing House joined Manufacturers Trust Company in making available 100 per cent to preferred depositors and 50 per cent to general depositors, Manufacturers Trust Company assuming the task of liquidation. A contract was made with the supervisory authorities, subject to the approval and direction of the New York Supreme Court, and subject to the approval of two-thirds of the stockholders of the closed banks. All property and assets were conveyed to Manufacturers Trust Company, and the bank credited payment of 50 per cent of the indebtedness due to the general depositors and 100 per cent to the accepted preferred depositors, as certified by the authorities.

Manufacturers Trust Company did not, of course, assume any liabilities on account of leases, personal services, etc. The bank is generally free as to the details of the liquidation. Expenses of the liquidation, approved by the court, were to be reimbursed to Manufacturers Trust Com- (CONTINUED ON PAGE 48)

"Demand" Savings Need Special Treatment

Thrift for Emergency Differs from Thrift for Investment

By BERTRAM O. MOODY

The savings banks are in a peculiar position today. They have invested their funds for many years in accordance with the laws enacted for such institutions, and events since the depression show clearly that these laws were imperfectly designed to enable the banks to go through a serious run or a protracted period of falling deposits. Furthermore, the banks which served their communities to the greatest degree by loaning heavily on first mortgages are in position to suffer most from withdrawals. All of which is not as it should be, the author adds, in suggesting a method for improvement.

THERE are two distinct types of deposits in every savings bank. The first is the backlog of savings which every family ought to have, and the second is money deposited for investment only.

This emergency savings fund—the money accumulated for the rainy day of sickness or unemployment—is the more important of the two from a social standpoint. It represents the only safeguard of many a family and it ought to be so invested that under no conditions outside of a general breakdown in our financial structure or an upheaval in our social order would the money be tied up so that the depositor could not have it on demand. It is idle to encourage a man to save his money for a rainy day only to have the savings bank unable to give him the money because of the storm. The rate of interest payable on this type of savings is relatively unimportant. It makes little difference whether the rate be 2 per cent or four per cent, so long as the depositor knows that his principal is safe and available when he wants it. This type of savings represents largely local money and the only reason for withdrawal would ordinarily be one of need.

The second type—the investment deposit—is different in character. It has little community spirit and is interested chiefly in safety of principal and rate of income. It flowed into the savings banks in huge amounts because they offered an investment which did not fluctuate in value because of changes in interest rates or earnings, and because they paid a higher rate of income than could be obtained on bonds of equivalent safety and agreed to repay the depositor on demand, or at most on 60 to 90 days' notice.

Now it is obvious that money cannot be invested in real estate mortgages and be available to meet demand deposits. Yet the laws permit savings banks to invest a large percentage of their deposits in mortgages. In Massachusetts they may place not more than 70 per cent in this type of security and the balance must be invested in bonds and notes, presumably of a liquid nature. Many banks have loaned from 55 per cent to 70 per cent on real estate and some have taken substantial collateral loans which are not too liquid today. The net result is that the average savings bank investment list is not set up with a view to caring for a substantial decrease in deposits.

It is evident that this investment type of money does not need to be as liquid as the emergency fund. In fact, beyond an emergency account of from $1,000 to $2,000, the average person's need for additional liquidity in savings accounts is largely sentimental. If he thinks his money is safe, he does not want it. If he thinks he can't get it, he immediately wants it—not to use, but to hoard. He must get it before the other fellow gets his. Though he knows a savings bank must invest in fairly permanent securities to pay a good rate of interest on his deposit, yet when panic overtakes him he throws all reason to the winds, gives up all ideas of social and community responsibility, and is only determined to get his money back.

It is absurd that a perfectly sound savings bank may be closed because of such unreasoning fear. It is unfair that the bank which serves its community most by loaning on real estate should be more exposed to this danger than a bank which forgot its community and loaned its money in more liquid ways. Yet every savings bank is in potential danger of having its doors closed because of hysterical demands, and the investment money is capable of doing the most and quickest damage because it is usually in large deposits, often as high as from $4,000 to $8,000, and it has no sentiment attached to it.

The basic reason for such a situation is that the savings bank enters into a contract with each depositor for the repayment of his money practically on demand, when it knows it can fulfil that agreement only if an average number of people wish their money at a given time. Beyond that it cannot go, since no bank can invest more than half its deposits in mortgages and pay depositors on demand.

Now let us suppose it were possible for savings banks to receive two types of deposits. The first would be for emergency needs—the money which every family must have in times of distress. The maximum amount of this type might be, say, $2,000 in any one account. It would be payable to the depositor on demand upon presentation of the passbook, and there would be no 60 or 90 day delay clause. These funds would be (CONTINUED ON PAGE 66)

•

Mr. Moody, who outlines here an interesting plan for savings banks, is vice president of the First National Bank of Amherst, Massachusetts. One thing which distinguishes him from many of those who write on financial subjects is his strong preference for action instead of theories.

In 1910 Los Angeles first was host to the American Bankers Association. Here the visiting bankers and their wives enjoy Catalina Island

Events and Information

WITHIN THE ASSOCIATION

WHEN the 58th annual convention of the American Bankers Association meets in Los Angeles October 3 to 7, it will be the fourth time that the banks and bankers of that city have acted as hosts to the Association. But somehow they seem to enjoy undertaking responsibilities, and find pleasure in achieving new goals of hospitality.

Los Angeles had a population of 319,198 in 1910, the first year that the annual convention went there. The photograph at the top of this page was taken at that time and shows a group of bankers and their wives on Catalina Island. The second time the Association met at Los Angeles was 11 years later, in 1921, the occasion of the 47th annual convention. The city meanwhile had been growing at a phenomenal pace and the population had climbed to a point above 600,000. Five years later in 1926 the Association met for the third time in Los Angeles. By that time the city had become a center of financial and commercial activity with almost 1,000,000 population. This year, those who go to the convention will see a great metropolis with more than 1,250,000 inhabitants. Bankers can take pride in the fact that the great banks and banking systems of California have kept pace with this extraordinary development and have had no small part in bringing it about.

Last year in Atlantic City it was decided that "blueness in color or spirit

58th Annual Convention

Los Angeles—October 3 to 7

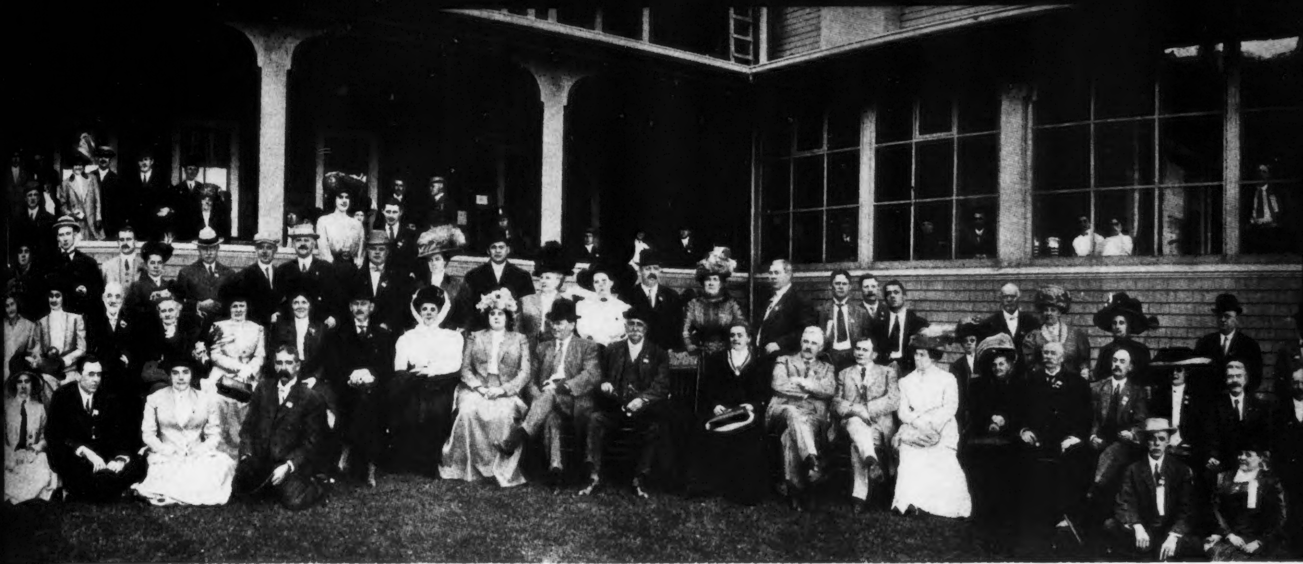
should be taboo for the 58th convention." Reports from Los Angeles are that the bankers there are completing elaborate plans to prove that "it can be done" in spite of the world's ills and the financial worries of the year. The same gaily colored Spanish shawls that brightened the streets last summer when Los Angeles celebrated La Fiesta in observing its 150th anniversary will lend color to the city again and the reigning spirit will be in harmony with the gay decorations. Moreover, this is Olympic year, with Los Angeles the scene of the international contests and with representatives of many nations in the Olympic Games adding interest to the occasion.

Because of the extraordinary importance of the economic problems confronting bankers at this time, the business program is being arranged to provide a quality that, for educational value alone, will be worth a trip across the continent to hear. Speakers at the general sessions will include outstanding leaders in financial, business and political circles. Problems of reconstruction, Washington legislation, branch banking and the proposed unified banking system under Federal control, unemployment relief and other topics of vital importance to the Association as a whole and to the interests of the various Divisions will come before the meetings for discussion and action by the delegates.

The expenses of attendance at the convention this year will be lower than for many years. Yet the importance of the business meetings combined with the pleasures of the trip and of Los Angeles itself, offer more perhaps than ever before. Next month, the JOURNAL will provide complete information regarding transportation routes and hotel accommodations.

The reports of the commissions have special importance this year. Moreover the Division meetings will serve as clearing-houses of experience and will sift out the best and most useful ideas from all parts of the country—practical suggestions for solving individual problems of management and operation. The special banking and economic conditions existing this year greatly increase the importance of attending the Los Angeles Convention.

Convention headquarters will again be in the Biltmore Hotel which has been enlarged since the last meeting. All the business sessions and most of the social events will be held there. The Los Angeles Biltmore is centrally located in the shopping, theatre and club center of the city with convenient transportation facilities to mountains, beaches, the best of the city's 50 golf links, and other



Styles then were not exactly the same as they are today, but many familiar faces and many banking leaders of a score and two years ago are here

points of interest in and around Los Angeles.

While bankers are attending the business sessions, their wives will have an opportunity to enjoy the hospitality for which California is famous. An excellent entertainment program will balance the atmosphere of serious purpose which it is expected will dominate the sessions. Moreover, the golf tournament is being scheduled so that bankers who wish to leave immediately after the last business meeting can participate. The results of play at Del Monte, and at Agua Caliente across the border, on October 7 will be wired to Los Angeles and counted with the local scores on that day.

THE INSTITUTE CONVENTION

Its assurance, through educational activities, of continued banking progress and competent leadership for the future

IMPOSING though the enrollment figures are which have been attained by certain of our universities in the last decade, not one of them yet approaches in size or significance the great educational body of the banking business, the American Institute of Banking, whose annual convention took place in Los Angeles, June 6–10.

Operating through 231 country-wide chapters, each with its own corps of trained educators and with an active student body in excess of 40,000, the Institute is silently but thoroughly and efficiently revolutionizing banking practices, eliminating the wastes and duplications and misspent energies of archaic methods, and training along forward-looking lines the future leaders in the world of banking and finance.

Before the Institute came into existence, each of the thirteen thousand-odd banks in the country was a law unto itself insofar as operating routine was concerned. Students of banking practice have discovered as many as 57 different plans for computing interest on savings accounts. There were endless varieties in systems of book-keeping and accounting, opposition to mechanical innovations, startling differences in the costs of handling identical matters of routine, and no uniformity whatsoever in the levelling of overhead charges.

Through the work of the Institute, tremendous progress has been made in the standardization of banking practices. Scientific analysis and comparative cost studies have afforded the basis for text-books on every angle of banking and the data in these text-books are constantly re-checked and kept up-to-date by continuous research and the application of new principles.

Every week during the school year, more than 40,000 alert men and women in the 231 class-rooms of the Institute are devoting from three to ten hours of time, outside of banking hours, to the mastering of the most intricate subjects, getting the benefit of the specialized guidance of bank officers of long practical training and grounding themselves in the fundamentals of the banking business.

Through the well-earned knowledge which is coming to this huge group of aspirants for the higher honors of banking is coming a sounder banking system, a more flexible banking machine adapted to the changing needs of the country and competent to render broader service to every banking community and secure more adequate profits for the institutions of which they are a part.

At the Los Angeles convention, the members of the Institute dug deeply into current problems of bank operation, conducting with its general meeting eight specialized conferences on Audits and Accounting; Bank Administration; Business Development and Advertising; Credits; Deposit Functions; Investments and Investment Banking; Savings Banking and Trust Functions.

NEW A. I. B. OFFICERS

FRANK N. HALL, controller of the Federal Reserve Bank of St. Louis, was elected President of the American Institute of Banking at the Los Angeles Convention. Albert S. Puelicher, vice-president, Marshall and Ilsley Bank of Milwaukee, was named Vice-President.

Four new members were elected to the Executive Council of the Institute: Frank R. Curda, Central Republic Bank and Trust Company, Chicago; J. Ross Burhouse, Pennsylvania Company, Philadelphia; T. Edward Kellar, State Street Trust Co., Boston; and Freeman Strickland, First National Bank of Atlanta, Atlanta.

In the public speaking contests, Harold Paul Cunningham, Security-First National Bank of Los Angeles, won first prize. Robert M. Hoffman, Jr., Continental Illinois Bank and Trust Company, won second; Dan D. Goodell, First National Bank of East St. Louis, third, and Hayes E. Bassett, Republic National Bank and Trust Company, Dallas, Texas, fourth. The Philadelphia team won the debate.

The Two-Cent Tax on Checks

THE Revenue Act of 1932, approved June 6, in Part VI, Tax on Checks, etc., and Sec. 751, Tax on Checks, etc., provides:

"(a) There is hereby imposed a tax of two cents upon each of the following instruments, presented for payment on or after the 15th day after the date of the enactment of this Act and before July 1, 1934: Checks, drafts, or orders for the payment of money, drawn upon any bank, banker, or trust company, such tax to be paid by the maker or drawer.

"(b) Every person paying any of the instruments mentioned in subsection (a) as drawee of such instrument shall collect the amount of the tax imposed under such subsection by charging such amount against any deposits to the credit of the maker or drawer of such instrument, and shall on or before the last day of each month make a return, under oath, for the preceding month, and pay such taxes to the collector of the district in which his principal place of business is located, or if he has no principal place of business in the United States, to the collector at Baltimore, Maryland. Such returns shall contain such information and be made in such manner as the Commissioner, with the approval of the Secretary, may by regulations prescribe. Every person required to collect any tax under this section is hereby indemnified against the claims and demands of any person for the amount of any payments made in accordance with the provisions of this section."

The above tax takes effect June 21, 1932. The bank has until the last day of the month following the month in which checks are paid to file return and pay taxes to the collector. The bank has the right to charge the amount paid against any deposits to the credit of the maker or drawer.

The return must be made and the tax paid to the collector of the district in which the bank has its principal place of business. The form of return will be prescribed by the Commissioner of Internal Revenue with the approval of the Secretary of the Treasury.

Collateral as Affected By Borrower's Bankruptcy

By THOMAS B. PATON

IN the JOURNAL for September, 1931 we discussed a recent decision of a Federal District Court in Pennsylvania (matter of Henry, U. S. District Court, Eastern District, Pennsylvania, June 12, 1931) in which the startling doctrine was announced that upon the bankruptcy of a borrower indebted to a bank upon a collateral note containing a power of sale, the bank could not sell the collateral at will as authorized by the note but must first apply to the bankruptcy court and obtain its permission to sell. Such a rule would, of course, cause delay which might deprive the bank of the opportunity to sell the collateral at a time when it might do so without serious loss.

As billions of dollars of bonds and other marketable securities are held by banks under collateral notes, the ability of the bank to dispose promptly of the collateral at market price in case of need when the borrower fails to live up to his contract, is essential to its safety; and the decision in the Henry case, being extensively published, caused considerable concern to banks in various parts of the country.

In our article in the September, 1931, JOURNAL we presented an extended discussion of the subject based on previous decisions and ventured the opinion that the rule announced would not be affirmed on appeal. Unfortunately, however, the Henry case was not appealed by the bank involved.

We are now pleased to point to a recent decision by the United States Circuit Court of Appeals, Second Circuit (in re: Hudson River Nav. Corporation, 57 Fed. (2d.) 175), in which the rule is declared that the bankruptcy court has no jurisdiction to stay a proposed sale of notes and stock pledged as security by a bankrupt. This is directly contrary to the rule announced in the Henry case and being by a higher Federal court, it should set at rest any misgivings which many bankers have had in view of the rule announced in that case. In the later case the Circuit Court of Appeals says:

"It has been generally understood that bankruptcy does not touch the power of a pledgee of shares of stock to close out his collateral. Nothing would be more disturbing to transactions of the kind than a doubt thrown upon that ruling. Millions of dollars are daily lent upon like collateral, which fluctuates from hour to hour; unless the pledgee is free to choose his time to sell, his security may disappear. The same is not indeed true of shares like those at bar, or of notes, neither of which vary rapidly in value; but the same legal reasons exist as to them also. The pledgee, having taken possession of the documents, supposes himself for just that reason to be the sole judge of his necessities and lends on that understanding. So long as he keeps within the terms of the agreement, he need not concern himself with the pledgor's fate, or that of his creditors, who must stand in his shoes."

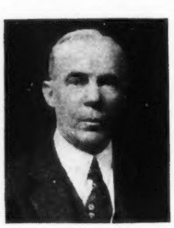
TRUST NOMINATIONS

PRESIDENT Thos. C. Hennings of the Trust Division has appointed a nominating committee to submit recommendations for the nominees for the election of officers and members of the Executive Committee to be held at the annual meeting of (CONTINUED ON PAGE 69)

NEW PRESIDENTS OF STATE BANKERS ASSOCIATIONS


J. W. BRADLEY


BACHRACH
MELVIN ROUFF


W. A. COLLINGS


A. F. JONES


R. N. PAGE


C. H. PLENTY

Washington elected Mr. Bradley, who is vice-president of the Old National Bank & Union Trust Co. of Spokane; Texas elected Mr. Rouff, vice-president, Houston National Bank, Houston; Indiana, Mr. Collings, cashier of the First National Bank of Crawfordsville; New Mexico, Mr. Jones, cashier of the First National Bank, Portales; North Carolina, Mr. Page, president, Page Trust Co., Aberdeen; and New Jersey, Mr. Plenty, vice-president of the Hackensack Trust Company.

A Plan of Action

These specific suggestions were offered by Mr. R. S. Hecht of New Orleans for solving the chief problems of Banking.

A COMPREHENSIVE plan of action "to eliminate the weaknesses and add to the strength of modern American banking" was offered by R. S. Hecht, president of the Hibernia Bank & Trust Company of New Orleans and chairman of the Economic Policy Commission of the American Bankers Association, in an address before the recent tri-state convention of bankers from Arkansas, Mississippi and Tennessee at Memphis. Mr. Hecht said:

"1. No bank, state or national, should be allowed to begin operations with capital less than $50,000. If a community cannot support this amount of capital, it would be preferable to accept a branch from a bank in the nearest large business center in the state rather than to open a smaller bank.

"2. Consolidations of banks should be carried out to reduce banking facilities wherever necessary to coordinate them with local economic needs and to eliminate weak banks and strengthen the retained institutions.

"3. Branch banking within the states should be extended by the states to allow strong local financial center banks to extend facilities to communities lacking adequate banking facilities.

"4. National banks should be given all such branch powers within the states of their domicile as are granted to state banks there.

"5. Investment affiliates of all banks, both state and national, should report to and be supervised by the bank supervisory authorities.

"6. Corporate group bank organizations should be fully subject, as an operating entity, to the bank supervisory authorities, but the operations of those well conceived and administered organizations of this type which are rendering inestimable services in certain localities should not be interfered with.

"7. The Federal Reserve authorities should be given and should exercise reasonable power against improper use of Federal Reserve credit for speculative purposes, but not to an autocratic extent or in interference with normal banking operations.

"8. A Federal Liquidating Corporation to hasten relief to depositors of closed banks is desirable during the period of clearing up the present emergency and its results, but the capital funds should not be forced from the banks, nor should this plan be considered or become established in any sense as a public guarantee of bank deposits.

"Lastly, within banking itself must be developed an increasing sense of responsibility toward its depositors and the public at large, who have a right to demand that no matter under what form or charter the bank may be operating, its first thought must ever be the continued safety of the institution.

MR. HECHT

"To that end bankers individually and collectively must assume the leadership in guiding banking laws towards higher standards and greater protection of the public never forgetting, however, that fundamentally our American System of banking, as contrasted with banking systems of other countries, is peculiarly well adapted to the highly diversified community life of the United States."

Merit-Reward Trusts

(CONTINUED FROM PAGE 37)

to the degree that such employees have been responsible for such earnings, with the idea that the success and growth of the company depends upon the efforts of the officers and employees and that when the earnings of the company increase, these employees who have been responsible therefor should be rewarded accordingly."

At the end of the fiscal year the executive committee of the board of directors, upon the recommendation of the president who, in turn, acts after consultation with the department heads, makes awards in cash or securities or both to the especially deserving employees. It is not incumbent upon the executive committee to distribute the entire amount available in any one year, but undistributed balances may be carried forward from year to year.

This latter plan is a typical trust for the reward of merit. Notice some of its features. The fund is immediately and completely segregated from the assets of the company. The trust is irrevocable, which means that the company no longer has any proprietary interest in it. The awards are in the absolute discretion of the executive committee of the board of directors, acting, however, upon the recommendation of the officers who have seen the work of the employees and know who are entitled to special rewards. It is not necessary to pay out the entire amount any one year, which means that in fat years some of the fund may be saved back for the lean years so as to continue rewards for unusual merit in a time of depression like this.

The trustee, on its part, has nothing whatever to do with making the award; it is an impartial stakeholder. At the same time it has complete charge of the funds and stands in readiness at all times to pay them out upon the order of the executive committee of the board.

Each industry must, of course, decide for itself what amount or what percentage of its earnings or profits it will set aside for its merit awards. It must decide what type of unusual merit shall entitle an employee to an award, what plans and processes to increase economies or products or sales, what scientific inventions or discoveries, what new products or services. It must decide who shall make the awards and how and when.

Even though at the moment industry as a whole may not be making enough over operating expenses and dividend requirements to enable it to set aside funds for merit-rewards, no matter how desirable it would be to do so, the time will come when profits will return. Now, it would seem, is the time to plan to save individual originality, initiative, and enterprise and at the same time to get all the full advantages of organization, standardization, and production.

Farming Is Prepared for Business Revival

(CONTINUED FROM PAGE 26)

increased his production until there is an abnormal surplus, the disposal of which is impossible. Most of these taxes are local. Hard roads, consolidated schools, and other items are responsible for the greater portion. It is within the power of the farmer himself to bring about a reduction in these local taxes.

Supposing that farmers are fortunate enough to see their taxes substantially reduced and the disparity existing between farm prices and industrial prices lessened, it is not to be expected that there will be any immediate substantial appreciation in the price of farm lands. However, it is reasonable to expect that with such an improvement in general conditions under which the farmer operates, there will be a market for farm lands at some price. Even that will be a decided improvement over the past ten years; for since 1921 there has scarcely been a market for farm lands at any price. When farming operations again show a fair return, there will be a real demand for farms. In the final analysis, income sets the demand and price for farm lands as it does for any other investment. If money is worth 5 per cent per annum and a farm will produce $5 net per acre per annum, year after year, then that farm is worth $100 per acre.

Already there is considerable interest being manifested in farm lands. This interest comes from two sources. In the first place, there is a limited speculative and investment interest on the part of the business and professional men living in agricultural communities. These men realize that land may now be purchased at approximately 21 per cent less than in 1914. The peak was reached in 1920 while the lowest prices were in 1931.

The great majority of those who are becoming interested in farm lands today, however, are homeseekers. There is a distinct back-to-the-farm movement. In the year 1930, farm population actually gained whereas it had lost ground for 10 to 20 years. One-half million fewer people left farms in 1930 than in 1924. It is reported in one agricultural state where large numbers formerly left the farms for various industries, that in the last two years the total number living on farms had increased 8 per cent.

The movement which has gone on for so many years of population moving from the country to the city has been reversed. The Federal Land Bank of St. Louis reports that it has sold 365 farms during the eight months ending with February 1932 as compared with 107 for a corresponding period of the previous fiscal year. More than 40 per cent of the current sales are to city people. Although the bank requires a down payment of only 25 per cent with 20 years in which to pay the remainder, it reports that the average down payment amounts to 40 per cent of the purchase price.

The theory has been advanced that there is already an overproduction on the farm and that this back-to-the-farm movement will still further increase this overproduction. Most of this extra farm labor, however, will produce only enough for its own consumption.

The opinion seems to be general that since agriculture has adapted itself to unfavorable conditions, it may be the first industry to see a return to prosperity. This opinion is not confined to people living in the country. If it were, it might be said that the wish is father of the thought. It is a fact, however, that the agricultural industry of America has put itself in a position to benefit from the first signs of recovery.

New Plan Speeds Liquidation

(CONTINUED FROM PAGE 40)

pany. The supervisory authorities retained the right to bring suit against directors and officers of the closed institutions.

The banks handled under this type of agreement are listed in the accompanying table with their capital, surplus and undivided profits, deposits, and number of offices as of June 1, 1931.

Through the liquidating process in these banks there already has been recovered in four out of the five banks, the 50 per cent in its entirety which was advanced to general depositors and the 100 per cent advanced to preferred depositors. Four of these five banks now have varying surpluses beyond the amount advanced to depositors and the liquidation process in the fifth bank is proceeding as rapidly as possible. In each bank the speed of the liquidation has been governed by the quality of the assets.

In the case of five other banks, Manufacturers Trust Company became the direct liquidating agent for the shareholders, through an agreement with them. This group included Lebanon National Bank, Midtown Bank, Bryant Park Bank, Midwood Trust Company and Brooklyn National Bank. This type of plan became effective when two-thirds of the share-holders ratified the agreement. After satisfactory investigations all depositors were credited with 100 per cent of their deposits. The share-holders of the banks to be liquidated transferred to Manufacturers Trust Company all the assets of their bank.

Two of these banks have already been turned back to the stockholders after full payment of 100 per cent to all depositors and complete recovery through the liquidation and two others will be turned back shortly. These first two banks, after meeting all claims of depositors, now have assets which have enabled them to pay liquidating dividends to stockholders, the significance of these liquidation dividends being that stockholders are assured there will be no assessments made upon them. Thus this process of liquidation by agreement has met with a considerable degree of success already, though liquidation is still proceeding and details are still being worked out.

	Capital	Surplus and undivided Profits	Deposits	Offices
American Union Bank	$1,000,000	$ 958,399	$ 7,939,819	3
International Madison Bank and Trust Company	1,750,000	1,607,332	7,761,863	5
Times Square Trust Company	1,000,000	578,353	1,882,406	2
Bank of Europe Trust Company	1,000,000	585,708	12,708,919	1
Globe Bank and Trust Company	1,525,000	536,748	7,486,270	5
	$6,275,000	$4,266,540	$37,779,277	16

Banks That Are Close to the Soil

By C. J. CLAASSEN

"THERE are many ways to be rich and, what is better, there is no possibility to be poor, without such negligence as can neither have excuse or pity; for a little ground will, without question, feed a little family, and the superfluities of life (which are now in some cases by custom made almost necessary) must be supplied out of the super-abundance of art and industry."

Mr. Claassen is president of the Farmers National Company of Omaha, Nebraska, and the author of a considerable volume of writing on farm management, including the book "Making Farms Pay".

Written 300 years ago by Abraham Cowley in England, these words still present a true picture of the farming industry with one exception. In our day the "superfluities" are also a part of the reward to the carefully managed farming enterprise. And for this agriculture has much for which to thank the banker.

Eleven 1931 farmers, who were awarded "Master Farmer" citations in Nebraska last January, averaged 53 years in age and $56,514.90 in *net* financial rating at present inventory values. Their average farming tenure was 26 years. Their net thus averaged an annual asset-increase of $2,173.65. How many bankers would not envy these farmers this 26-year record of accomplishment? Some of it occurred during a time of the world's great struggle with depression, during the astounding inflation orgy.

I know of two of these farmers. They have their banker to thank as well as their own capable farming judgment and farming ability. In my native county-seat town these two farmers, who are brothers, have, during all their farming career, never taken a major step in any of their operations without consulting and checking up with the economic judgment of their county-seat banker.

Whenever they needed funds for any transaction or feeding operation they have ungrudgingly paid the prevailing 7 per cent and 8 per cent country-bank interest rate. In the same way they have paid 5½ and 6 per cent on their real estate loans. Federal land banks and intermediate credit banks have never tempted them, because they valued contact with their local banker.

"For," said they, "are we not indebted to our banker for his judgment of the future on the economic soundness of our undertakings about which he, through his close, daily business contacts, knows so much more than we, following our plows and feeding our live-stock?"

This banker in my native county-seat town, deserves a "Master Banker" medal. He is a national banker. When the Federal Reserve System first loomed on the horizon he said that he did not need it and did not want it. I venture to say that his bank today does not know the modus operandi of the discount machinery as far as its own personal use of it goes.

This county-seat bank stands there today sound in every detail of its policy and its note case, with the largest deposits in its wide agricultural territory and enjoying the rightfully earned confidence and respect of the entire community. Do not think for a moment that it had no banking competition. When a bank founds its policy on sound banking principles and combines with it a real, personal, good-judgment interest in its depositors' welfare, whether rural or urban, such a bank really has no competition. And it is the maker of master farmers, master merchants, master citizens and a master countryside.

The New Tax Load

(CONTINUED FROM PAGE 28)

has demonstrated that it will continue to pay its honest bills in honest money.

Even in its strictly tax aspects, the law has its points. Many of the more drastic and irritating provisions are placed on a definitely emergency basis, lapsing in 1934. While restoring war-time rates on estates and the largest incomes, the law increases so sharply the normal rates on small incomes and extends so far the application of income taxes to large groups now exempt that it is a far cry from a socialistic "soak the rich" measure. Like any other, this tax law falls short of precise justice and equity—if for no other reason than that the conditions to which it is applied have changed a week after its enactment—but it makes a straightforward effort to pass the burden around, and it plays no heavy favorites among potential sources of revenue.

Even though the circumstances of the preparation and passage of the bill and the violent criticism to which Congress was subjected at every step of the way now are water over the dam, there may be some enduring good in reviewing them at least briefly. Through the newspapers, some current magazines, and the acid wise-cracks of professional humorists who must have their joke, the country was given the impression that everything which was done or left undone in connection with this revenue legislation was hopelessly inept and bungled.

Perhaps Congress did a pretty good job, all things considered. Irrespective of Jovian thunderbolts hurled at its alleged delays and political posing, Congress from the beginning had one main task to perform: to balance the budget for the fiscal year beginning July 1, 1932. It did that, with time to spare. It could not start to do that satisfactorily before all the bad news of the fiscal situation came to light in the March 15 income tax returns. In reality, the magnitude of the problem to be met changed almost weekly right up to the eve of the passage of the act.

The passage of the Revenue Act of 1932 and the beginning of the painful business of collecting enormously increased taxes from millions of individuals and businesses by no means settles fiscal issues for any extended period of time. Instead, it is simply a breathing spell. War-time taxes once abandoned cannot be restored just overnight, nor perfect administrative machinery devised for taxes never before tried. Fiscal developments themselves alone can determine whether another problem of deficit financing will be forced into the lap of the short session of Congress next December.

BANKS AND CITIES—Kansas City, Missouri

(CONTINUED FROM PAGE 39)

City in any equal period in their history.

Nevertheless, with the aid of the banks in financing, Kansas City in 1895 purchased her water works from the National Water Company for $3,175,-000.

At the end of the century, after the Spanish-American War and the laying of the free silver phantom to rest, a new bank that helped to stimulate business was the Fidelity Trust Co., which was established in 1899 with H. C. Flower as president. This bank is still in operation as the Fidelity National Bank and Trust Company and continues to be under Mr. Flower's management as chairman of the Board.

One of the greatest rush jobs ever accomplished by Kansas City was the rebuilding of the big Convention Hall in 1900. The Democratic Convention had been scheduled to meet there but, only three months before the date, the hall burned to the ground. The nation expected the convention to go elsewhere, but the city government, banks, building committee, and citizens all got together and accomplished the impossible in getting steel and other materials shipped in from outside, and erected a really remarkable, permanent structure in time for the convention.

When steel began to be applied to the construction of skyscrapers, it was the National Bank of Commerce in 1907, by the construction of its tall new building, that began the revolution in the appearance of the city.

The live stock industry still continued to be the greatest single business in the city and in 1909 another institution, the Drovers' National Bank, was founded to assist the cattlemen.

About this time a new industry began to be evolved. The discovery of oil in Oklahoma and southeastern Kansas led to the beginning of refining in Kansas City. The oil was at first brought to the city in tank cars, then a pipe line was laid, and larger refineries were constructed, all of which were financed by local capital.

The romance of our cities and the pioneering efforts of their older banks are vividly portrayed in these articles by Mr. Manchester, who is well known to JOURNAL readers as a writer on historical and economic subjects. The accompanying article is the fourth in this series

Another enterprise that was assisted by Kansas City investments, and added to the prestige of the city, was the construction of the great Union Passenger Station in 1914. This brought attention to the fact that Kansas City was probably the second greatest railroad center in the country.

The population of the district again increased rapidly, that of the city rising 50 per cent between 1900 and 1910. So in the era before the World War we find a number of new banks helping to meet the demands of the increasing business—the Pioneer Trust (1903), the Stock Yards Loan Company (1909), the City Bank (1913), the Stock Yards National (1913), and still larger than any of these, the Kansas City Title & Trust (1916), which did much in the rebuilding of the skyline of the city.

POST WAR ACCOMPLISHMENTS

ONE of the greatest accomplishments of the period since the World War was the construction of a new water system, costing $11,000,000 and financed through the banks and with local capital.

More striking still was the Liberty Memorial, a broad building out of which rises a tall column with a perpetual fire on top, as in the temple of the Parsees in Asia or of the goddess Vesta in Rome. For this over $2,000,-000 was promised by popular subscription in a week and advanced, as needed, by the banks.

The wide spreading and prosperous residence districts have given rise to a number of neighborhood banks. There are a dozen, for example, with a capitalization of $100,000 each, which do a regular banking business in their districts.

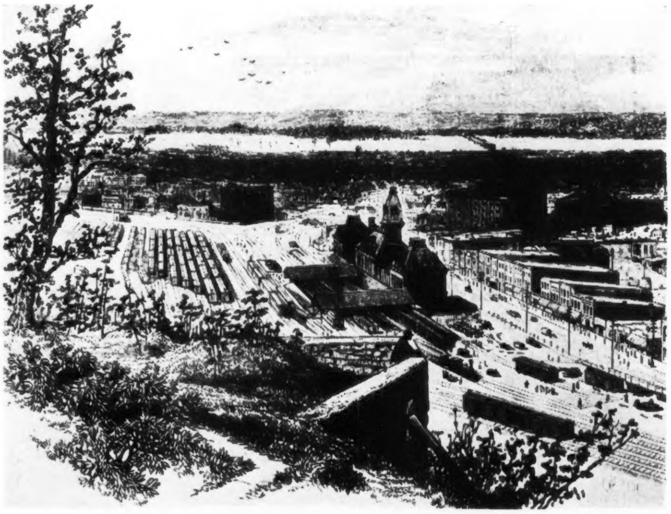
GREAT INDUSTRIES

THE great live stock and packing interests have given birth to highly important allied industries, to furnish supplies and produce by-products. Kansas City, for example, is the greatest hay market in the country, and one of the most important soap manufacturing cities.

In a similar way, since the prairies were settled, the production of wheat in the Kansas City zone has gradually increased.

In order to finance all this industry, the transactions of the banks, as shown by the records of the Kansas City Clearing House, have continued to increase in comparison with those of other cities, and in recent years have been higher than those of several cities of twice the population.

To put things statistically, Kansas City receives about 100,000,000 bushels of wheat a year, and ranks third in flour milling. It receives $300,000,000 worth of live stock and produces $450,000,000 worth of packing house and allied products. It manufactures about $650,000,000 worth of goods. It is the refining center of the mid-continent field. It ranks first in the distribution of agricultural implements and lumber, and has a total wholesale trade of about $800,000,000. It has postal receipts of over $10,000,000. It is one of the greatest railway centers of the country, with twelve trunk railroads, besides 32 subsidiary lines, and has freight loadings of 40,-000,000 tons a year.



As early as 1885 Kansas City was a railroad center. Today it has one of the best Union Passenger Stations in the country

The Condition of BUSINESS

FOR the first time in many months it was possible during the month ending in mid-June to distinguish a presentable number of apparently genuine symptoms of improvement in some aspects of the condition of business. While they did not appear particularly impressive against the familiar array of unfavorable facts that have so long composed virtually the whole picture, the very circumstance that several important signs of betterment were visible at one time was a distinct novelty with probably important implications. Perhaps if so great an inertia of pessimism did not possess the public mind, these gathering fragments of the beginning of better times would arouse greater confidence that something really significant is afoot.

Absorption of over-production in various important directions was reported.

Slackening in the rate of commodity price recessions foreshadowed approaching equilibrium in supply and demand.

French trade agreement granted most favored nation treatment to American export manufactures, now restricted by France's quota system, removing one barrier to improvement in the industries affected.

Material reductions in foreign short term funds in the New York money market and in foreign investments in American securities obviated the foreign threat against American gold stock.

GOLD MOVEMENTS

SEVERAL important European gold exchange standard nations had completed replenishing their gold reserves, replacing their holdings of foreign exchange, largely on the United States, with the actual metal.

Despite tremendous foreign withdrawals of gold from the United States, this country's stocks still remained not far below the 1928-9 level and were ample to support not only the existing greatly reduced credit structure but also considerable expansion.

The foreign takings of gold from America were rapidly tapering off.

Continued expansion in world gold production contributed further to the trend toward a more stable world gold situation.

Powerful moral support to America's maintenance of the gold standard was also furnished by the League of Nations gold delegation's declaration that the gold standard is the best available monetary mechanism for the world and its stocks are adequate to support the credit structure legitimately required by world trade.

In domestic industry, although steel activity reached a new low, confidence was expressed that this dip was largely seasonal and would be followed in the fall by a considerable expansion in this direction.

In the financial field a $100,000,000 bond pool, organized not to create artificial price support for securities but to take practical advantage of the profit possibilities presented by existing market quotations, indicated the conviction of responsible opinion that deflation was at last nearing completion.

Also the weekly rate of bank suspensions continued at a level not far above pre-depression times, indicating that measures taken to meet the critical aspects of this situation were proving effective and eliminating it as a major cause of public hysteria and business fear.

QUIET TRADE BUYING

IN trade lines it was reliably reported that a number of users of raw materials, such as manufacturers of prepared cereals, bakery products, oil products, tires and other rubber products and large users of copper, confident that commodity prices are near bottom, were quietly buying large supplies and storing them against future need, rather than run the risk of over-staying present favorable prices.

In political lines, by enactment of the tax bill Congress established a balanced budget in principle, and by evident intention to effect economies in administrative expenditure, and also to abstain from any extreme political relief or debt measures, evinced a disposition to establish a balance in fact.

Resulting restored foreign confidence in American fiscal policies and practices stemmed the flight from the dollar and rallied the dollar in the foreign exchange markets above the gold export point.

Nearer approach of adjournment of Congress with growing assurance that no bonus bill, inflationary measure, pork barrel relief plan or other economically destructive legislation would be enacted was one of the most constructive developments in the period under review.

Again in public affairs, the nation-wide growth of organized movements to insist on reductions in Government expenditures, not only in the Federal field but in state and municipal matters as well, promised to develop correctives to the tax burden situation as a business depressant.

Clarification of the prohibition controversy as, in effect, really a question of the "repeal of bootlegging," also deserves listing among constructive business factors because of its promise ultimately to lead to a lessening of Government expenditure due to crime, to restore a fruitful and uncomplaining source of Government revenue, to eliminate a cause of social disorder and to put back into the hands of legitimate trade and industry the economic activities now conducted under illicit auspices. (CONCLUDED ON NEXT PAGE)

Some of the foregoing are improvements associated specifically with the present unique period. Others are typically such changes as have always proved to be forerunners of a turn for the better in previous depressions.

It is possible to line up many sufficiently well known unfavorable and even grave factors that are still present in the current situation, and thereby remain in a state of pessimistic expectancy of further disaster. Nevertheless, the favorable factors listed are, in their total aspect, a distinctly new element in the general look of things. They unquestionably constitute a stronger line of resistance against further reaction and a better defined starting point for improvement than has yet appeared since the depression established its sway over the business life of the nation.

How the Taxes Affect Trust Companies

(CONTINUED FROM PAGE 29)

gifts without regard to the amount of gifts given in any preceding year. Under the new Act the amount of gifts made in any year is added to the gifts made in any prior year and upon which the gift tax was imposed, so that the result will be that a higher rate of tax will be imposed on the gifts made in the second calendar year than that on those in the first calendar year. For example, each year involves three operations: First a computation of the tax at the graduated rates on all gifts made after the enactment of the Act, including gifts made during the current calendar year; second, a computation of the tax at the graduated rates on the gifts made in the prior year or years; and third, the subtraction of the result of the second computation from that of the first. This was the contention of the Ways and Means Committee in reporting on the bill.

REVOCABLE TRUSTS

As to revocable trusts, it was the thought of both the Ways and Means Committee and the Senate Finance Committee that where a person creates a revocable trust naming another person a beneficiary a gift is effected when the donor relinquishes the power to revoke or the power is otherwise terminated in the beneficiary's favor. The provision of the Act, as already stated, imposes a tax on the relinquishment or termination of the power of revocation. No tax is imposed upon the creation of a revocable trust, it being deemed that no gift has been made until the gift becomes absolute.

The additional estate tax affects the estates of all decedents dying after the passage of the act. This tax is in addition to the tax imposed by the Act of 1926 and is found by computing the tax under the 1932 Act and subtracting from it the amount of tax as computed under the 1926 Act. The new rates begin with a rate of 1 per cent on net estates of $10,000 and run up to 45 per cent on net estates in excess of $10,000,000.

The amount of the net estate is determined in the same manner as under the 1926 Act, except that in lieu of an exemption of $100,000 there is only allowed an exemption of $50,000.

The 80 per cent credit provided under the 1926 Act is not allowed in respect to the *additional* tax under the 1932 Act, but such credit is still allowed against the tax computed according to the 1926 Act.

In computing the Federal estate tax hereafter, there are in fact two distinct taxes to pay the Federal Government. One is the estate tax as found due under the 1926 Act, against which the credit is allowed up to 80 per cent of that tax, and the other is the tax imposed under the 1932 Act which is equal to the excess of the tax computed at the rates set forth in that Act over the amount of tax computed under the 1926 Act.

AMENDMENTS

There have been a number of amendments to the estate tax provisions of the 1926 Act which are briefly stated as follows:

(1) Credit is allowed for gift tax paid on property required to be included in the gross estate of the decedent. The amount of the credit is limited, however, to an amount bearing the same ratio to the estate tax as the amount of gifts included in the gross estate bears to the total gross estate. The value of the gift included in the gross estate is the value either at the date of death or at the date of the gift, whichever is lower.

(2) The credit of 80 per cent allowed for inheritance taxes paid under various state laws is to be limited to the inheritance taxes paid in the state of the decedent, and this credit is also to be computed after the gift tax credit has been deducted. Many estates have suffered by reason of the fact that it was impossible to compute the state inheritance tax until after the Federal tax had been computed and paid so that they were unable to obtain the credit of such state inheritance tax against the Federal estate tax, as the time within which credit should be claimed had expired. The time for claiming credit under the present Act for inheritance taxes paid is extended from three years to four years after filing the return, with the further provision that if the case is taken before the U. S. Board of Tax Appeals then the period is limited to a period ending sixty days after the final decision of the Board. If an extension of time for paying the tax is granted, the period during which the claim may be filed is extended to expire contemporaneously with the extended period.

(3) Under Section 803, the 1926 Act as amended March 3, 1931, is clarified as to the taxability of transfers where income is reserved. New language is added so that transfers are clearly taxable where the period for which the income is reserved will include periods which are not ascertainable without reference to death and periods which do not in fact end before death. The provisions of Section 302 (c) relating to the taxation of gifts in excess of $5,000 made within two years has been eliminated and a new provision has been added to the effect that all gifts made within two years of death are deemed to have been made in contemplation of death, unless shown to the contrary.

(4) Section 804 of the new Act amends Section 303 (d) of the 1926 Act by adding a provision that relinquishment or promised relinquishment of dower or curtesy or other marital rights is not to be considered to any extent as a consideration in money or money's worth.

(5) Section 805 as to deductions, as stated by the Ways and Means Committee, merely clarifies the deductions now allowed, with one exception. Losses from fire or other casualty are eliminated on the ground that such losses are exempt from income tax to the estate during the period of administration, and they should not be twice allowed.

(6) The amendment to the 1926 Act as contained in Section 807 has been enacted, as reported by the Committee on Ways and Means, due to the Supreme Court decision on February 18, 1924, in the case of Edwards v. Slocum, 264 U. S. 61. The amendment provides that if estate or inheritance taxes are payable out (CONTINUED ON PAGE 71)

What Canada Has in View

(CONTINUED FROM PAGE 33)

field of mining that Canada shows to the best advantage among world producers. The comparatively successful resistance shown by some branches of her non-ferrous metal industries to the forces of depression places her in a favourable position to continue operations on a comparatively large, although necessarily somewhat reduced, scale. On the other hand the rapid strides she has made in gold-mining, which have made her the second largest producer of the yellow metal, augur well for her future, not only as far as concerns her own position in the industry, but as regards her ability to provide a greater part of the annual addition to the world's gold stock.

MEETING FINANCIAL PROBLEMS

IN matters of finance it is significant that Canadian governmental bodies have attacked with vigour the problem of balancing their budgets. This is in keeping with the general trend of living within one's income which manifests itself in another direction through the better balancing of our visible trade (for the 12 months ending April there was a favourable balance of $23,237,994 as compared with an unfavourable balance of $87,206,242 for the same period in 1931). However much the volume of imports may attest to a nation's material prosperity, it is clear that we cannot continue indefinitely piling up obligations to purchase foreign exchange while the markets for our exports are still restricted. Fortunately one of the major factors in our "invisible" balance of payments, the net return from tourist trade, is still one of the most reliable sources of income to this country. While it is yet too early to forecast what this season will bring, it may reasonably be hoped that Canada will continue to enjoy her reputation as an ideal tourist country.

The exchange situation hinges mainly upon capital exports to meet external obligations and foreign trade in general, visible as well as invisible. While, as indicated here, there was a complete reversal in visible trade in 1931, we balanced our international account only by exporting about $60,000,000 more gold and subsidiary coin than we imported, and there is continued strain in meeting our external obligations, which will be intensified or lessened according to Canadian crop conditions and world economic developments.

We met the arduous conditions imposed upon us in 1931, however, when we harvested the second short wheat crop in three years, and with any degree of good fortune this season we should be able to do as well as we did last year. Incidentally, it may be pointed out that Canada is one of the few countries whose international obligations are not in default, notwithstanding that tariffs have been raised against us in nearly every market, particularly by those nations who are our creditors. Fortunately Canada has in gold an acceptable substitute for commodities shut out or made difficult of sale by tariffs. Canadian gold production in 1931 was about $55,000,000. This will probably increase to $60,000,000 in 1932, and to $100,000,000 within the next ten years. About $1,320,000,000 of the securities representing the total national debt of Canada are held in the United States and nearly 50 per cent of Canadian bonds outstanding, government and corporation, are payable as to principal and interest at the holder's option either in Canada or the United States; in a period such as the present, therefore, when American funds are at a premium, the option of being paid in United States funds is being generally exercised. This factor of course imposes an additional strain on governments and corporations whose bonds carry this optional clause, but according to preliminary estimates it would appear that such payments due during 1933 and 1934 will be gradually reduced as new refunding issues are made payable in Canadian currency.

CANADA'S BANKS

THE record of the past two and a half years has been favorable compared with that elsewhere and undoubtedly arises from real underlying economic strength, in which the stability of the financial system by which the economic machinery of the country operates cannot be over-emphasized. The opinion of observers in other countries witnesses to the esteem in which men of different political and economic views hold the Canadian banking system. As a Canadian banker I can only say that it is our plain duty to act in the capacity of trustees for those towards whom we have assumed obligations, and that under the ægis of this mutual confidence our banks and the people they serve can work together for the advancement of Canada now and in the years to come.

When a Bank Needs Funds Quickly

(CONTINUED FROM PAGE 16)

all small notes under $500 and the chances are that nine out of ten of them will be collected". That time seems to have passed and while it is some protection not to have all eggs in the same basket, at the same time if all of the baskets are a little weak, there may not be enough eggs left to make an omelet.

The experience of the Federal Reserve Bank of St. Louis has shown, when a bank has failed, that of the notes of $500 and less the greatest number we have been able to collect has been 65 per cent, and these notes, taken largely on banker's estimates, seemed to be good notes when accepted. Other small notes have been returned because the banker's estimate hardly indicated a chance of payment. Had the small notes been taken indiscriminately without any investigation, the percentage of loss would have been much greater.

A bank's business is based on confidence and therefore its every transaction has in it some element of risk. It is the bank's duty to minimize to the fullest this element of risk, and to have its bill case in such shape as to prevent its use in the face of an emergency is certainly not minimizing the risk.

A TYPICAL CASE

IN order that what I have said may not seem too far fetched, it perhaps is in line to give an experience typical of a number of others in recent years. Something over a year ago on account of banks failing in contiguous counties, one of our men was sent to a member bank in order to be helpful should any emergency arise. One did develop at this bank and it was helped over the emergency by money sent by the Federal Reserve Bank of St. Louis. This bank presumably was a good country bank, but it was only after a good deal of hard work that our representative could get sufficient information to give him an idea as to the paper he was taking. When this emergency was over our man stayed a day or so in that bank recalling to the officers efforts we had previously made to have them get their paper in shape. The bank seemed very grateful and said that it would continue the work that was started and would never again be caught without full credit information in its files. That was over a year ago. About a month or so ago our representative, being in that territory, called at this bank now operating under normal conditions and when in a friendly way he inquired about the bill case he discovered that practically nothing had been done since his last visit a year previously. He went over approximately $170,000 of notes, the majority of which were under $500 and by a liberal use of imagination could find only $30,000 in such shape that in an emergency they could have been immediately taken by the Federal Reserve Bank, the Reconstruction Finance Corporation or correspondent. The answer to his inquiry was "well we got over the other difficulty and we don't think anything like that can happen again". What has happened may happen and it certainly cannot be called good banking to be unprepared.

The bank that is as "solid as a rock" must be "liquid" not only in the sense that its loans will be promptly paid, but it must be liquid in the sense that there is such credit data with its loans that they can be used to get money from other sources when the emergency arises.

The Unit Bank Accepts the Challenge

(CONTINUED FROM PAGE 13)

ambitious to improve their own fortunes and intent upon developing their native land.

For years some people have been analyzing the suspension record of American banks. The record tends to prove some things. It establishes that too many banks have been chartered by both national and state authorities. It bears out the suspicion that too many banks have been operated by men who were not bankers. It shows that banks of any size, but especially those in very small communities, go down when the entire basis of the community's economic sustenance collapses. But it shows only the most uncertain and conflicting evidence about branch banking. If we really desire that future suspensions be curbed, we can correct their fundamental causes by logical remedies far less drastic, far less revolutionary, and far more practically promising, than the demoralizing cure now offered for a disease with which it has not more than the remotest conceivable connection.

LOOKING AHEAD

QUITE apart from the deep-seated American economic and political principles violated by the proposed overturn of our dual banking system, I see large and positive perils in any further extension of branch banking itself. It makes large-scale mistakes out of isolated small mistakes and spreads their costly effects through whole regions. Even under liberal management, branch offices operated by remote control cannot fail to stultify Main Street commerce and to that extent impair America's fundamental vitality and spirit of progress. It discourages such potent factors in good banking as employment of community resources for a community's own benefit, proprietorship management, individual credit for success, and individual responsibility and penalty for failure. If it would strengthen at all, it would be from without and not from within, a method that has few successful precedents. It would defy regulation and examination even as effective as that which we now have from either state or national authorities. It would place faith in elaborate machinery, not in men, a most doubtful policy at best. It would concentrate financial power in progressively fewer hands. It would substitute mere bigness for inherent strength, and would rely upon the weaknesses of extending credit by formulas and averages rather than upon sound, informed judgment in individual credit cases. There is little I can see in further extension of branch banking that would serve the public good and much that would hold the peril of financial serfdom over the heads of our people.

But, mark you, when branch banking becomes only the window dressing for a determined drive to destroy our whole dual system, it strikes at the very foundation of American principles. In that guise, it repudiates the native forces which have made our people great and strong, and glorifies the inhibitions which have helped to make some foreign nations decadent and weak. It extends into our most vital economic field the dangers of an enlarged Federal bureaucracy, ready at hand for the best or worst types of political machination, even though any type is repugnant enough.

We will be wise to argue this issue on its merits, but without any illusion that the state-chartered banks and trust companies, the country banks in the national system, the states whose sovereignty would be flouted, and the public whose banking service would be impaired, would endure complacently any such thrust at their inalienable

rights, their immediate welfare and their deep-seated fundamental principles. They are not defenseless and they know it. They can resort to state legislative retaliation in many forms, such as organizing state reserve banking systems, restricting deposit of state and local public funds to state-chartered institutions and removing national banks from state reserve lists. Really profound thought and fair-minded judgment will never crowd the states into taking mischievous measures of that sort in self-defense.

Not the state-chartered institutions and country national banks alone, but the sections of the public served by them as well, are conscious of and deeply stirred by this audacious scheme which would do far more even than destroy our dual banking system. By the thousands, they are making their opinions known to Congress with a united front that leaves no doubt of their convictions or of the lengths to which they will go in defending them. If headstrong aggressiveness should force this issue from the status of an academic discussion to that of a pitched battle for preservation of state sovereignty and for survivorship of unit banking, there can be little doubt about which side would prevail. But such aggressiveness is particularly ill-timed under conditions when the energies of all bankers and all right-thinking public authorities should be devoted to cooperation—but with both sides, and not just one, doing the cooperating—in making our public and private financial structure invulnerable.

How 59 Banks Advertise

(CONTINUED FROM PAGE 20)

vidually. Unless a man is satisfied to sit back and trust his future advancement to the chances of fate and occasional resignations among his colleagues—in which case he is not really the right type of bank officer—it is obvious that he has a definite interest in the growth of his institution, regardless of what his particular functions may be. For this reason, and because bank building requires continuous effort from the top down and from the bottom up, the chairman of the board and the president, in our case, are the leading spirits in our whole scheme of business development.

"It is true that we have what is called a development department with the necessary machinery for seeing that lists of prospects are consistently brought to the attention of the interested officers at the proper times. It is true that we have a limited number of 'field men,' to whom different territories are assigned for cultivation. And finally, it is true that one of the officers of our banking department is responsible for the operations of our development department, the activities of the field men and general development policies which he works out with the chairman and the president. But the fact remains that every single officer, under the leadership of our chairman and president, is not only expected to take an active part in development of our business, but actually does so."

Customers Best Prospects—"The first principle in applying our program is that our own customers are our best prospects and we make it our business to see that they get to know several of our officers, so that they will be thoroughly at home with us and so that we shall have more than one avenue of approach. In short, we concentrate on serving our customers well, developing all angles of business we can with each one, and ultimately soliciting their help and guidance in obtaining business from others.

"Our problem is far from easy as customers are numerous and scattered. Yet we have been more and more successful in our efforts to make sure in the case of company accounts, for example, that we know several officers of that company and that officers of that company know several of us. This is naturally the foundation upon which we attempt to build up and develop our relations, but we do not confine our efforts to the mere development of friendly business and social relationships. We are constantly finding ways of doing things for our friends, which are of actual service to them in their day to day affairs. In some cases we may be directly instrumental in obtaining a piece of business for a customer. In other cases we may find ways and means of putting him in contact with the right person in a concern whose business he is soliciting. In short, we "do as we would be done by." All of this involves getting out and seeing people, which is expected of us all.

"We have long since discarded the idea of assigning groups of names to each officer and making that officer responsible to follow those names personally. The machinery of our development department is so geared that various names with which any given officer has contact come before him automatically at such times as he may himself have chosen or whenever something turns up that in the opinion of the development department should be brought to his attention. Prospects and customers alike are thereby cultivated, not by any one individual but by various people.

"When new names come up, they are naturally referred first to our credit department in order to make sure that it would be consistent with the bank's policy for us to solicit the business. The name will then generally come before one of the officers personally responsible for business development and if no other officer has a suitable personal contact, he may then start the ball rolling himself or place it in the hands of one of his field men. The primary object of the field man is to get the prospect into the bank sooner or later, even if it is only to meet some of our officers."

Co-Operation with Credit Department—"The development department is itself a division of our credit department, and the field men are all graduates of that portion of our credit department which devotes its time primarily to the making of credit investigations and the forming of credit opinions. This is, of course, very important. None of us wants to see solicitations carried on by men untrained in the fundamentals of sound credit judgment. While our field men are obliged to have the names of any new prospects approved by an officer before they can make any approach, the fact remains that they must understand why they may or may not approach a given name, and our loaning officers must have the knowledge that the men who are out representing the bank have banking instinct as well as real banking training."

Officers' Calls —"Having convinced our officers a number of years ago that it was in the interest of the bank and therefore in their interest, and having the outstanding leadership of our chairman and our president in this activity, our officers today find it as natural to turn a hand to development work as though it had been an integral part of their jobs all of their lives.

"We have sometimes remarked half jokingly that if our bank had a coat of arms, the development effort would be symbolized by a hat and a pair of shoes. This we illustrate in practice by making sure that we all put our hats on frequently and set forth in quest of business, even at the risk of wearing out a good deal of shoe leather."

An Essential Bulwark in America's Financial Defenses

(CONTINUED FROM PAGE 23)

tering and supervision that have been imposed on banking. Even greater difficulties could be caused in the future by ill-considered so-called reforms that have been proposed in respect to banking specifically, or by half-baked schemes for tampering with the currency, prices, the securities markets and other economic elements that would have threatened ruin not only to our financial methods and institutions but to the normal business of our people as a whole.

The past two years have been especially prolific in such proposals—and proportionately great have been the opportunity and the success of the American Bankers Association in serving its members and its country in combating them. I can cite but a few instances of the attitude taken by the Association in respect to major Federal legislation by way of illustration.

PROMPT APPROVAL

FIRST, there were two important measures on which the Association took a prompt attitude of approval, and it was prepared to lend its aggressive support to them and make its influence felt if there had been need. I refer to the Reconstruction Finance Corporation and the Glass-Steagall Bills. The Reconstruction Finance Corporation Bill, I would point out, was amended, following urgent recommendation of the Association, to permit loans to closed banks, along lines suggested by our former president, M. A. Traylor, and was adopted with this essential feature included. Modifications in line with our suggestions were also made in the Glass-Steagall Bill. The beneficial results of these measures have been too marked to call for further discussion—but they do point the comment that the American Bankers Association is always ready to lend prompt and sincere aid to financial or banking proposals that will really serve the public welfare, and that it is not always a party of opposition.

MEASURES OPPOSED

OUR only regret is that a few more of the main measures of direct or indirect banking interest introduced in Congress did not command the same endorsement. Nevertheless the action of the Association in combating them because of their destructive or detrimental features was just as true a form of public service as lending support to good measures.

This was certainly true of our opposition early in the session of Congress against postal savings legislation which would have carried savings banking by the Post Offices far beyond the very limited and possibly relatively innocuous extent they are now permitted to practice. Banking is surely justified in its stand against subsidized competition in private financial enterprise on the part of Government agencies. Also it is clearly against the public interest in this country to permit the growth of Government banking. Following our representations against these measures they died in committee.

The Association also went vigorously on record against the Federal Home Loan Bank Bills and the bills introduced for the Federal Guaranty of Bank Deposits—with what effect cannot be stated at the present writing, since these proposals are still pending.

THE GLASS BANKING BILLS

BUT the greatest activity in respect to legislation of the American Bankers Association had to do with the Glass Banking Bills. We sincerely believe that our attitude here, at any rate in respect to the first version of the Glass Bill as introduced, was more in defense of the national welfare than of banking. That measure was so subversive of the whole financial situation as affecting all our people that it was clearly a public menace. The organized opposition of the Association received such widespread public support that the bill was quickly withdrawn. It was reintroduced in modified, but still clearly unsatisfactory form and again sent back to committee for revision following public hearings held at the request of the Association, and brought out a third time in a form that largely, though not wholly, embodied criticisms and suggestions made by our representatives and many of our members appearing as individuals. In this form the Association has approved it in general, if amended in six important features, with the further reservation that the measure is not really called for at this time.

One of these features as to which the Association was placed on record as being in opposition is Section 19 of the Glass Bill, which would grant state-wide branch powers to national banks regardless of state bank laws and also a certain degree of limited inter-state branch banking powers to such institutions under specified conditions. It was pointed out by the representatives of the Association that the Association in 1930 passed a resolution modifying its former declared opposition to branch banking only to the extent of stating that community-wide branch banking in metropolitan areas and county-wide branch banking in rural districts where economically justified may be desirable,

but also affirming that the autonomy of the laws of the separate states in respect to banking should be maintained in every respect and that no class of banks should enjoy greater rights in regard to the establishment of branches in the respective states than the state chartered banks there.

This, of course, brings up a controversial subject in banking, which I mention only to illustrate how the structure of the Association is fully qualified to deal with the problems it creates, difficult as they are and involving, as they do, apparently irreconcilable differences.

As I brought out in describing the basic diversities that exist in banking from place to place, the experience and specific business advantages of bankers in some cities make them favor at least city branch banking, others find county-wide or state-wide branches more to their liking, while still others consider independent single unit banking best fitted to their particular interests and look upon the extension of branch banking, especially on more than a city-wide basis, as a threat to their existence.

It is also to be noted that Section 19 of the Glass Bill, in reviving these issues, adds another—namely by granting branch powers to national banks even in states withholding them from state banks, and also by giving national banks a measure of inter-state branch banking power, state chartered institutions would thereby be placed under such competitive disadvantages in regard to national banks as create for them an issue of special interest.

MEETING THE SITUATION

THE structure and activities of the American Bankers Association are fully able to meet this situation. The existing general resolutions fully empower its representatives to oppose Section 19 in its present form and they have done so.

Furthermore, if state bank members believe that the peculiar terms of Section 19 create a special issue calling for particularly aggressive action on their part they are fully within their rights in urging their views in this regard. In fact the officers of this division, as a properly functioning organ in the Association, are alert and active in seeing that the case of the state banks shall be fully and fairly represented in the court of public opinion against any invasion of their rights or interests that they may deem would be caused by Section 19 in the Glass Bill.

Thus, even in a situation involving a conflict of opinion among members—for it is undoubtedly true that the sentiment and interests of many bankers strongly favor the contrary belief that the terms and intended effects of Section 19 are desirable—it is possible for a group with a special interest at stake to work vigorously and effectively within the Association in behalf of their particular views without in any way treading on the rights and privileges of others with diverse views to take similar action should they deem they also have a matter of special interest to defend or to urge. Working thus under the general prestige of the Association, each group or phase of banking thought is able to make the most effective presentation of its case in public discussions. The maximum weight and dignity in public thought assuredly attaches to a viewpoint developed or an argument carried out under the general aegis of orderly, organized banking opinion as represented by the American Bankers Association.

The work of the Association during the past year has been an outstanding demonstration of its power and value

not only as an effective advocate of sound banking thought and opinion, but also as a great public servant. It is an essential safeguard to public welfare in its special fields of economic and legislative influence. One hardly likes to contemplate the public hazard that would exist were it not for its continually vigilant power to rise up in an emergency such as was presented by the first version of the Glass banking bill and avert the veritable public disaster that such a measure threatened.

With the uncertain times that still lie ahead, a stronger, more powerfully buttressed Association than ever before is essential to the nation's welfare. From within banking careful reforms must be worked out in protection of the people's financial welfare—and from without banking serious menaces of unsound legislative tampering with basic economic principles and banking practice must be combatted by all the power at the command of banking as an essential duty of good citizenship.

In spite of all the sectional, divisional, business or other differences which may divide our member banks, there are certain eternal and fundamental interests which concern all alike. Be they agricultural, commercial or industrial, state or national, East or West, North or South, they are all American banks concerned with the primary problems of American business. As an association we in effect stand firmly on the platform that the things which unite us are always more important than the things which divide us, and so the American Bankers Association stands eternally as a protecting shield for the banking business as a whole and the spearhead for the furtherance of sound finance in the broad principles which apply to all alike. Special interests are absorbed in the general interest which the Association as a whole subscribes to, and whose cause it furthers. Defensively and offensively it is the shield and sword of the American bankers.

"Demand" Savings Need Special Treatment

(CONTINUED FROM PAGE 41)

invested in Government bonds, acceptances, short term notes or commercial paper, and the rate paid to the depositor would be the average return earned by this class of investments in the bank. It might be as low as 2 per cent and probably never higher than 3 per cent, but the money would be available for emergency purposes as long as there were any Government left.

The second type of deposit would be made in round amounts of, say, $100, $500 and $1,000 denominations and the depositor would receive a certificate of deposit payable at a fixed date—possibly five, ten or 15 years in the future—with interest based on the earnings of the bank.

In normal times the bank could maintain a resale market for these certificates without loss to the depositor, but there would be no obligation to do so in abnormal times and the depositor would know this when he made the deposit. Under no conditions could a bank be closed because of hysteria on the part of its depositors. It could pay out emergency deposits as long as the customers stood in line, and would be under no obligation to the second group.

Such a plan would require periodical reductions on mortgages, but already many banks require such payments.

It might be difficult to inaugurate this plan of dual deposits in ordinary times, but if a savings bank were compelled to close its doors because of a run, it would be far better to open up again promptly under such a system than to go through a long and costly process of liquidation for the benefit of depositors. The hardship of those depositors who are really in need is only matched by the injustice of forcing the payment of mortgage loans at a time when it is practically impossible for a real estate owner to obtain money elsewhere.

One Community's Relief Program

(CONTINUED FROM PAGE 15)

fact, without the home canning and the stored potatoes, cabbage and carrots, it is a question how our unemployed families could have come through the winter. We are counting even more heavily on this form of self-help for next winter's needs.

Other specific methods have been devised, in comparison small but in the aggregate important. For example, instead of buying packaged breakfast foods the committee buys wheat and has it cracked locally. It obtains and distributes skim milk from creameries, practically as palatable as whole milk and almost as nourishing, for less than half the cost of milk. And the women's auxiliary has worked out provision for care of childbirth cases, with special rates from the hospitals.

A hard pull, yes. But so far our town, like thousands of others the country over, has managed to carry the load and avert actual suffering.

If Europe Wanted to Pay

(CONTINUED FROM PAGE 32)

mines of the Saar Basin were given to France by the Treaty as compensation for the destruction of the coal mines of northern France. The Saar Basin lies north of Lorraine and contains 740 square miles. For 15 years (until 1935) it is to be governed by a commission under the League of Nations, after which a plebiscite will decide whether it will have a continuation of that rule or union with France. In any case France becomes the sole owner of the coal mines and concessions, the value of the mines to be credited to Germany on reparations account.

Germany entered the European competition for colonies somewhat late. In the half century before the war she acquired nearly 3,000,000 square kilometers of territory, inhabited by more than 12,000,000 persons. Her overseas empire ranked third in the world in extent and fourth in population. The colonies had one important advantage and that was in their strategic locations. They placed Germany in a position of special strength in Africa, the Far East and in the Pacific.

In 1884 Germany acquired at one stroke three large territories in Africa: Togoland, the Cameroon and Southwest Africa. The same year she occupied a third of the island of New Guinea and a number of smaller islands nearby. Then she reached over and took East Africa and in 1897 established herself on the coast of China at Kiaochow. In 1890 she occupied the Carolines, the Paloas, the Mariannes and Marshall Islands. In 1900 she occupied the Samoan Islands and established her position as one of the principal powers of the Pacific.

German policy differed somewhat from that of France and England in that she sought outside territories mainly as a source of raw materials which she was not able to produce at home. Only a few thousand Germans settled in the African colonies while other European countries encouraged emigration to their respective colonies by the hundreds of thousands.

Germany sought rubber, in order to be economically free of Brazil, the Congo and Malaysia. She wanted her own sources of cotton production in order to avoid dependence on American, Egyptian and Indian cotton; she made a bid for independence in other commodities by developing her own sources of sisal, jute and the oleaginous products of the tropics where most of the cheaper vegetable oils are obtained.

She planned an empire of 18,000,000 square kilometers and 90,000,000 inhabitants, trained in German discipline, with naval bases to dominate South America, the Atlantic, Pacific and Indian oceans.

All of these facts point to the importance of the Treaty provision which dissolved this vast colonial power; because all the wealth, actual and potential, and all the incalculable strategic dominance envisaged by Germany in planning her colonial empire, passed to the former allies. All that the United States brought back from Paris was an uneasy hope that the debt would be paid.

Surely out of this vast transfer of economic wealth and political prestige and naval power, the means for paying America at least something on account can and should be found.

And, on our part, from the standpoint of national security and the future of our overseas trade, America would be justified in extending her island and colonial possessions by any peaceful and intelligent process.

Behind the Bond News

(CONTINUED FROM PAGE 5)

Bank of the State of New York, the funds to be channeled through to savings and loan associations, which in turn would make the funds available to the public for refinancing small home mortgages and for home repairs and refurnishings.

NEW FIELD OPENED

THE Savings and Loan Bank cannot sell its bonds in less than $50,000 pieces, and so it cannot come directly to the public to market its obligations. In the past it has sold its bonds to large buyers such as mutual savings banks and also to the State Comptroller. The Young committee opened up a new market for the bonds when it persuaded the big New York banks to take an issue. The amount of the issue was not revealed, but it was commonly supposed to be less than $5,000,000. While the amount involved was rather small, the deal represented, nevertheless, a genuine accomplishment for the Young committee, bringing, as it did, funds to a field where they could be most advantageously used.

For months the Federal Reserve has been trying to get the money market banks, with the co-operation of private bankers, to form a company to buy bonds. The Young committee went to work energetically on the idea, and so the American Securities Investing Corporation was formed with an initial capital of $100,000,000, with Thomas W. Lamont and George Whitney, both partners in J. P. Morgan & Co., as chief executive officers. Twenty New York banks and banking houses were the initial subscribers to the corporation's debentures, and later subscriptions were accepted from two more New York institutions and certain out-of-town banks.

RAILROAD BOND OUTLOOK

AMONG the developments affecting bond sentiment adversely the handling of the $20,000,000 St. Louis Southwestern maturity deserves mention. When the Reconstruction Finance Corporation began to function, bond prices had a good rally, for according to popular belief the existence of the Corporation was a guarantee against railroad bond defaults. If service on the rail list could be maintained, the bond market would be given backbone and a rallying point set up. But events which occurred not long after the Corporation began to do business dissipated this idea. The Wabash was permitted to go into receivership, and there was much wrangling over the meeting of bank loan maturities. The St. Louis-San Francisco was directed to submit a plan to lighten its fixed charges, and it became known that the Reconstruction Finance Corporation would not put up enough funds to take care of the June 1 maturity of $20,000,000 Cotton Belt bonds. All these developments, quite naturally, caused the public to have its doubts about Reconstruction Finance.

The plan worked out for handling the Cotton Belt maturity, while no doubt the best that could be arranged by the railroad under the circumstances, was not, in the eyes of the bond fraternity, a triumph of ingenuity and sound finance. Worst of all, the plan was regarded as setting a precedent which might arise to haunt endeavors later this year to handle rail bond maturities. The Cotton Belt scheme called for cash redemption of 50 per cent of the maturing issue and the issuance of a new bond for the unredeemed half of the maturing obligation. Holders of the bonds were asked to assent to the plan, and it was announced that unless 90 per cent of the bonds were deposited the railroad might be forced into receivership.

PUBLIC UNCERTAINTY

THE unfortunate part of the arrangement lay in the fact that uncertainty existed in the public mind right up to the close of business, May 31, as to how the undepositing bondholders would fare. Some holders had the idea that if they did not deposit their bonds they might be paid off in full and, as it turned out, they were so treated. The plan thus was manifestly unfair to the holders who deposited their bonds. Minorities unquestionably have rights, but have they the right to be paid off in full while the majority go on half ration in order that receivership may be staved off?

The Nickel Plate has $20,000,000 of three-year 6 per cent notes falling due on October 1, and application has been filed with Reconstruction Finance for a loan with which to meet the maturity in full. If the Corporation follows its recent precedent it will offer to put up 50 per cent of the loan asked for and direct the road to negotiate an extension of the remaining half of the issue. But will those who do not consent to the extension be paid off in full? They will have the Cotton Belt case to encourage them to hold out for full payment. The Nickel Plate, perhaps, is fortunate in that the maturing note issue is presumably held by institutions, rather than by the public, and so the arranging of a 50 per cent extension may not present insuperable obstacles. Nevertheless, the Cotton Belt maturity has set a bad precedent.

Events and Information Within the Association

(CONTINUED FROM PAGE 44)

the Division in Los Angeles October 3. The personnel of the committee follows:

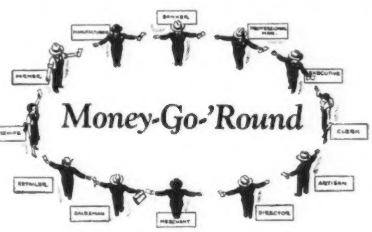
Ralph Stone, chairman of board, Detroit Trust Company, Detroit, Michigan, Chairman; Robertson Griswold, vice president, Maryland Trust Company, Baltimore, Maryland; William G. Littleton, vice president, Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania; Leroy McWhinney, vice president, International Trust Company, Denver, Colorado; Moorhead Wright, chairman of board, Union Trust Company, Little Rock, Arkansas; Henry E. Sargent, secretary, Trust Division, American Bankers Association, 22 East Fortieth Street, New York, Secretary.

The committee will draft recommendations for nominations for the offices of President and Vice President of the Division and five members of the Executive Committee. Members of the Division are invited to suggest nominees for the consideration of the committee. Suggestions may be made to any member of the committee or to the secretary.

NEW FOLDER

AN institutional folder, "Money-Go-Round," has been prepared by the committee on publicity of the Trust Division for the Association members to send to their customers, especially as enclosures with their customers' monthly statements. An illustration is used in the folder to show the circular route of money in every community. The copy, which leads into the part which the bank plays, is as follows:

"We all like to feel our personal independence. So we should. . . . But so long as we are living here in a civilized community we



are bound one to another—dependent on each other.

"Every day we buy and sell from each other. We make our purchases and we pay our debts with money. Money is continually passing from hand to hand.

"Sooner or later it passes through the bank's hands. As long as business life goes on, money will be needed. As long as money goes the rounds, there will be need for banks.

"When every one of us in the business circle does his job, meets his obligations, plays fair with the others, when we take the trouble to understand each other's problems, when we 'bear and forbear'—then hard times will seem less hard, good times will be just so much nearer.

"Speaking for ourselves, our problem is to know when, where and in what amounts to advance money and credit, without weakening the safeguards we must keep about our depositors' funds. The rate of interest we pay to depositors must be based on safety first. We know—and you know—the higher the rate, the greater the risk.

"In our management of estate and trust funds the element of safety is even more important, because our obligations run far into the future. Investments of other people's money must be watched with greatest care. The funds themselves must be kept entirely separate from other bank money. This is an entirely separate part of our business.

"We are telling you these things about ourselves because the better we understand each other the more respect and confidence we will have in each other.

"We keep open house every day, and are always glad to discuss our business with you, yours with us."

A copy of this folder will be sent to you upon request to the committee on publicity, Trust Division, American Bankers Association, 22 East Fortieth Street, New York.

FINANCIAL STATEMENT FORMS

THE following financial statement forms approved by the Bank Management Commission of the American Bankers Association are available to members of the Association: Number 1,

"Philadelphia Bowl"

Another goal for golf achievement at the Los Angeles convention of the American Bankers Association in October will be this handsome award by Philadelphia bankers. It will go to the officer of a bank member, or to the member of a firm or private bank member, of the Association or to the state association secretary who turns in the lowest gross score at the golf tournament. The winner three times will have permanent possession.

farmer at $1 per hundred; number 2, individual at $2 per hundred; number 3, corporation at $2 per hundred; number 4, partnership at $2 per hundred; number 5, hotel at $2 per hundred. Also monthly report forms for use in Bank Affairs in making reports to directors are available at $1 per hundred.

PACIFIC TRUST CONFERENCE

PRESIDENT Thos. C. Hennings, of the Trust Division, has extended an invitation to all trust companies and banks operating trust departments throughout the country to be represented at the Tenth Regional Trust Conference of the Pacific Coast and Rocky Mountain States which meets, under the auspices of the Trust Division, in Los Angeles September 29 and 30 and October 1, 1932. President Hennings has pointed out the national aspect of the Los Angeles Trust Conference where trust men representing every section of the country are expected to be in attendance.

Coming as it does immediately prior to the Fifty-Eighth Annual Convention of the American Bankers Association which meets in Los Angeles October 3-6, it is possible for trust men to attend both meetings conveniently.

Editorials

(CONTINUED FROM PAGE 25)

a dangerous type. They are cringing, cowardly rats who lay their plans carefully and take as few chances as possible. They do not hold up a bank on the impulse of the moment. They find out first whether or not an institution is defenseless. A bank without complete, up-to-date protection at a time like the present might as well hang a "welcome bandits" sign over the front entrance.

Manners

THE president of a small city bank in the south calls his employees together at least once each month to discuss in some phase or other the art of being courteous.

"There is no place in banking today," he says, "for bad manners. In the course of a year one supercilious clerk, teller or vice-president can undo the good work of a public relations program. Politeness in dealing with the public is the essence of sound banking and good management. The strongest institution in the country cannot afford the wasteful extravagance of frowns, aloof indifference and short tempers. The high cost of a surly employee is an item that never appears in the most meticulous cost analysis".

How the Taxes Affect Trust Companies

(CONTINUED FROM PAGE 56)

of deductible bequests, then the latter should be reduced by the amount of the taxes paid.

(7) Further amendment is made providing for an extension of time, in case of undue hardship, for the payment of the tax, extending the time from five to eight years.

(8) Many have followed with interest the proposed section which was to grant relief in estates of decedents dying between September 1, 1928, and January 1, 1932, where the values had materially fallen since the date of death. This provision was passed by the House but was stricken out by the Senate, and does not appear in the Act as finally passed.

CONVENTION CALENDAR

July 11-13 **Michigan** **Mackinac Island**
July 22-23 **Montana** **Glacier Park**
Sept. 2- 3 **Wyoming** **Rawlins**
Sept. 8 **Delaware** **Rehoboth**

AMERICAN BANKERS ASSOCIATION MEETINGS

(Make your plans now to attend both of these meetings together.)

Sept. 29-Oct. 1 **Tenth Regional Trust Conference** **Los Angeles, Cal.**
Oct. 3- 6 **A. B. A. Convention** **Los Angeles, Cal.**

INDEX TO ADVERTISERS

July, 1932

How Many Can You Answer?

These questions were taken verbatim from the examination requirements of the American Institute of Banking

1. (a) What is the principal difference between a draft and a promissory note?
(b) A, in Cleveland, draws a sight draft on B, in Chicago, ordering him to pay $100 to C. Write the draft.

2. (a) As a commercial banker approaching the season of heavy withdrawal of funds, how would you arrange your portfolio with reference to
   (1) types of loans?
   (2) maturity of bulk of loans?
(b) What factors, if any, should limit the total amount of credit extended by you at any one time? Explain.

3. (a) Why are adequate reserves for obsolescence and depreciation essential?
(b) Should they be set up on the basis of earnings? Give reason for your answer.

4. Define the following:
   (a) First mortgage bond
   (b) First and refunding mortgage
   (c) General mortgage bond
   (d) Collateral trust bond
   (e) Debenture bond
   (f) Equipment trust bond
   (g) Convertible bond
   (h) Sinking fund

5. (a) How may a will be revoked?
(b) How may a will be modified or changed?

6. (a) What is a certified check?
(b) What is the status of the parties to it after certification?

7. An agent is engaged in the business of placing loans on mortgages. He charges 1% to all persons seeking to place money on mortgages through him. He also charges 1% to all persons borrowing money on mortgages through him. A turns over to the agent $5,000 to be placed on a mortgage, and a mortgage is executed by B on B's property through the efforts of the agent. Can the agent collect the 1% commission from both A and B? Reason.

A met B on the street in Columbus, Ohio and said, "I will give you $26 per ton for 100 tons of the pig iron which you have in the yard at your Cleveland foundry, take it at once and pay on delivery."

B replied, "You have bought something."

The next day A sent his agent to Cleveland, Ohio, to load the pig iron, but B refused to deliver it. A then tendered to B $2,600 in cash and demanded the iron. B still refused to deliver it. The next day B sold the 100 tons of iron to L for $32 per ton.

What, if any, relief can A obtain? Explain your answer.

---

8. A indorsed a negotiable promissory note to B "without recourse." B negotiated the instrument by a blank indorsement to C. It developed that the instrument was a forgery. Would C have any recourse against A?

9. Discuss the relation of the standard of living to (a) the supply of labor, (b) the quality of labor.

10. (a) Compare the reserve requirements of national banks prior to the enactment of the Federal Reserve Act with the present-day requirements.
(b) Comment on the reasons for the difference.

11. A borrower, who has made it a practice to pay off his loans with your bank once each year and who has remained out of debt for two months each year, comes to you at the time he would ordinarily be paying his loan and tells you that not only is he not planning to clean up this year but that he wants a 20% increase in his line temporarily. He explains that his request is prompted by an opportunity to purchase a large supply of merchandise considerably under the current market price, and if he carries out this plan, it will mean that his position in merchandise will be large and his ultimate profit will be large too. What factors would influence your judgment in reaching a decision? Discuss fully.

12. What is meant by the "Recapture Clause" of the Esch-Cummings Railroad Act?

13. (a) What is the law against perpetuities?
(b) What is the law against accumulations?

14. (a) State briefly the principal functions of the clearinghouse association.
(b) What are the advantages to be derived from such an association?

15. A corporation declared a dividend on its capital stock. White had purchased from Black certain shares of this company's stock before the dividend was declared but had failed to register the transfer on the books of the company. Black, the former owner, who still appeared on the books as a shareholder, collected the dividend. What remedy has White against the corporation?